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INTERNATIONAL SPECIALTY PRODUCTS INC.
1993 ANNUAL REPORT

About The Company

International Specialty Products is one of the world's premier specialty chemicals companies. The Company has approximately 2,400 employees at more than 70 locations, including manufacturing facilities, research laboratories, and sales and customer service offices throughout the world, serving customers in 75 countries.

The Company manufactures four major groups of products – specialty derivative chemicals, mineral granules, filter products and advanced materials – holding a significant market share in each of these principal product groups.

ISP produces more than 300 specialty derivative chemicals, which have a broad range of applications, encompassing such markets as pharmaceuticals, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's products, while often representing a relatively small portion of customers' production costs, generally constitute key ingredients in the end products in which they are used. The business is characterized by an emphasis on technology, research and development, marketing and customer service. The Company believes it has been able to sustain its market share positions for its specialty derivative chemicals by establishing and maintaining long-term relationships with its customers and

working closely with them to develop chemicals tailored to their specific needs.

ISP's mineral products business manufactures ceramic colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company's granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection, and increased weight.

The Company manufactures filter products, consisting of pressure filter vessels, filter bags and filter systems designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries.

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders which are used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food and beverage industries.

ISP's stock is traded on the New York Stock Exchange under the symbol "ISP".

Financial Highlights

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands, except per share amounts)	1993	1992	1991
Net sales	\$ 548,252	\$ 570,757	\$ 525,786
Operating income	\$ 65,091	\$ 107,664	\$ 121,852
Income before income taxes and cumulative effect of accounting change	\$ 49,823	\$ 85,782	\$ 75,682
Income before cumulative effect of accounting change	\$ 29,558	\$ 57,182	\$ 50,646
Net income	\$ 29,558	\$ 50,113	\$ 50,646
Earnings per common share:			
Income before cumulative effect of accounting change	\$.30	\$.57	\$.56
Net income	\$.30	\$.50	\$.56

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FELLOW SHAREHOLDERS:

1993 was a year in which ISP fell far short of its goals in terms of its financial performance, primarily as a result of the continued weak European economies, the adverse effect of foreign exchange, and lower sales in the Company's mineral products business. Despite ISP's disappointing performance, the fundamental strengths of our businesses, together with a number of actions we took this past year, provide cause for cautious optimism that 1994 will mark the beginning of a meaningful turnaround in the Company's performance.

1993 FINANCIAL RESULTS

For the 12-month period ended December 31, 1993, net income was \$29.6 million (30 cents per share), compared with \$50.1 million (50 cents per share) in 1992, the latter including an after-tax charge of \$7.1 million (7 cents per share) in connection with an accounting change related to postretirement benefits. Net income in 1993 reflects a pre-tax provision of \$13.8 million, primarily related to the Company's cost reduction program announced last October, and a non-recurring, retroactive income tax provision of \$2.9 million (3 cents per share), representing the effect of the change in the federal corporate income tax rate on the

Company's net deferred tax liability.

Operating income was \$78.9 million (excluding the \$13.8 million charge) versus \$107.7 million in 1992, while revenues were \$548.3 million versus last year's \$570.8 million. Excluding the two non-recurring charges in 1993, full year net income was \$41.3 million (41 cents per share), compared with net income (excluding the \$7.1 million charge) of \$57.2 million (57 cents per share) for 1992.

Results in 1993 were affected by a \$28.8 million reduction in operating income (excluding the \$13.8 million charge) and a \$3.9 million reduction in income from the GAF-Hüls joint venture, partially offset by a decrease in interest expense of \$6.1 million and an increase in other income of \$4.5 million.

SIGNIFICANT DEVELOPMENTS

This past year was one in which the Company initiated a \$25 million cost reduction program designed to reduce operating costs throughout the Company; continued to expand, at double-digit rates of growth, its business in the Asia-Pacific and Latin American regions of the world; increased the geographic penetration of its specialty derivative chemicals business around the world; developed a number of promising new products and applications; launched an all-out, Company-wide quality

improvement program, initially to be focused on its manufacturing and customer service functions and with eventual application to operations throughout the Company; strengthened the Company's balance sheet by reducing debt by almost \$70 million, thereby lowering the Company's ratio of net debt-to-total capitalization (assuming the application of cash and marketable securities toward debt reduction) from 45.7% to 40.6%; and finally in the closing days of the year obtained approval from the New Jersey Hazardous Waste Facilities Siting Commission for the construction and operation of a commercial hazardous waste incinerator at the Company's Linden, New Jersey site.

(1) \$25 Million Cost Reduction Program

ISP initiated last October a \$25 million cost reduction program designed to address virtually every cost of doing business and, in so doing, reduce operating costs throughout the Company, including those related to manufacturing, sales, and administration. The program involves already implemented personnel reductions of more than 135 employees, consisting of almost 10% of the Company's salaried work force, and other cost cutting actions which will reduce a wide range of operating costs. Cost reduction measures involving more than one-half the total

reductions envisioned by the program have already been implemented, with the balance, principally in the manufacturing area, expected to be completed over the remainder of 1994.

It is important to note, I believe, that the cost cutting measures encompassed by this program were, rather than across-the-board actions, carefully tailored so that the areas of our businesses on which we expect to increasingly rely for future growth will remain unaffected. Along this line, we have eliminated unnecessary overhead and redundant layers of management, reduced operating costs through purchasing efficiencies, and are in the process of reducing manufacturing costs through a whole host of process improvement programs aimed at improving yields, productivity and raw materials efficiency.

(2) Geographic Expansion

ISP continued last year to expand its specialty derivative chemicals business by increased geographic penetration, with continued emphasis on the Asia-Pacific and Latin America regions, where sales and operating income (excluding the \$13.8 million restructuring charge) increased in the Asia-Pacific by 22% and 35%, respectively, and in Latin America, 23% and 12%, respectively. In order to further the geographic expansion of ISP's business, we

have in the past year opened offices in Beijing and Moscow and currently plan in 1994 to either open new operations or add to the Company's existing presence in Argentina, India, Korea, Poland, Taiwan, Venezuela, and Vietnam. We continue to believe that ISP's geographic expansion program will serve as one of the key drivers of its future growth, and the Company expects to be particularly aggressive in the pursuit of other attractive opportunities in this area.

As the Company's international business continues to take on an increasingly significant role, ISP's European manufacturing project becomes all the more important. In this connection, we currently have under consideration several sites, in addition to the original Ghlin-Baudour, Belgium location, for the establishment of a European manufacturing facility, and the Company expects to make a final site determination some time this year, with actual commencement of operations scheduled for 1996. The facility will not only be extremely cost efficient as a result of new, state-of-the-art technology but should also enable ISP to reduce its distribution costs and better serve its international customers with a reliable and efficient source of ISP products.



Samuel J. Heyman, Chairman of the Board and Chief Executive Officer (left), and Carl R. Eckardt, President and Chief Operating Officer

(3) New Products and Applications

ISP continued this past year the same high level of commitment to its new product development programs as in 1992, a year in which research and development expenditures increased by almost 20%. Those products introduced to the market this past year and which show particular

promise are: Gantrez® XL-80, a new hair care product with superior performance characteristics and designed to meet more stringent environmental (VOC) requirements; Escalol® 597, a new Van Dyk sunscreen product which increases the sun protection factor (SPF) of sun care products; Pharmasolve™, a pharmaceutical grade solvent designed for use in injectables and topical delivery systems to enhance drug delivery and efficacy; Flunixin meglumine, a high value veterinary drug for use as an anti-inflammatory for horses and cattle; Polyclar® Super R, a regenerable polymer for stabilizing and clarifying beer and wine; Rapi-Cure® PEPC, a unique and effective reactive solvent which significantly broadens the applications for radiation curable coating, a more environmentally-friendly coating process; DOSE-MAP™, a quantitative dosimetry system measuring the dose distribution of blood irradiation devices, which complements the Company's 1992 introduction of RAD-SURE®, a film indicator which validates the irradiation treatment of blood components.

(4) Company-wide Quality Improvement Program

While ISP has always regarded quality and customer and technical service as the critical cornerstones of the success of its business, the Company moved this past

year to focus additional management attention and resources to these all-important areas so that we can meet or exceed the expectations of our customers with regard to the delivery and quality of ISP's products and services.

To this end, we intensified last Fall the Company's commitment to its quality effort with the establishment of a Senior Management Quality Improvement Council and the appointment of John Tancredi, the Company's former Vice President, Research and Development, as Chief Technical and Quality Officer with responsibility for ISP's Company-wide quality improvement effort. The primary focus of ISP's quality program in 1994 will be on enhancing customer satisfaction through a better understanding of the needs of ISP's customers, quickly translating those needs and expectations into rapid delivery, and continuing to improve the quality of our manufacturing and customer service operations. Also, for example, ISP recently reoriented its sales organization along end use market lines so as to better serve its customers and continued as well to intensify its efforts to improve its manufacturing operations. In this latter connection, a number of process improvement teams have been established at most all ISP's manufacturing facilities,

and their work over the balance of this year can be expected to increase productivity, reduce waste and inefficiency, and improve the overall quality of the Company's manufacturing operations.

Finally, as evidence of the progress we have made already, the Company's Calvert City, Kentucky, and Chatham, New Jersey, manufacturing facilities recently received ISO 9002 certification, adding to the certification already received by ISP's Texas City, Texas, facility in 1991. ISO certification is an internationally accepted hallmark of quality management and assurance, and with these three production facilities having received certification, ISP now ranks in the top echelon of American industry in achieving this increasingly important quality standard.

OTHER DEVELOPMENTS

After a more than five-year effort, ISP's Environmental Services unit received approval from the New Jersey Hazardous Waste Facilities Siting Commission late last year for the construction and operation of a commercial hazardous waste incinerator at the site of its former Linden, New Jersey plant. While the city of Linden has appealed the Commission's decision to the Courts and the approval itself is subject to a number of conditions, we are now in a

position to move forward with the balance of the permitting process with a view toward commencing construction of the incinerator facility some time late next year.

PROSPECTS FOR 1994

While we should see in 1994 an improvement in ISP's earnings compared with those of the prior year (even after excluding the special charges), given the fact that a number of the same factors which adversely affected the Company's 1993 performance continue to persist, it is still too early to make any definitive predictions. Nonetheless, it is clear that ISP's performance in 1994 will benefit from the developments we have recounted, and that the Company's focus on cost control, efficiency, and quality will make an important contribution to what we expect will be a better performance this year and thereafter.

ACKNOWLEDGMENTS

The success of any organization is the direct result of the quality and performance of its people, and in this respect one of the accomplishments this past year in which we can take pride has been the continued upgrading of ISP's organization. I am delighted that Carl Eckardt has assumed again the position of President and Chief

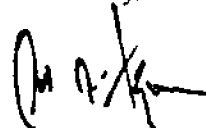
Operating Officer of the Company, a position which Carl held over a five-year period in the 1980's, during which time he guided the Company to 16 consecutive quarterly increases in operating income. I am confident that Carl will provide the kind of capable and decisive leadership needed to enable our Company to regain its earnings growth momentum. Moreover, we continued this past year to attract a number of new executives to the Company, as well as develop and promote executives from within our ranks, such as: Paul J. Aronson, Vice President, Taxes; William H. Baum, Vice President, Sales; Mark A. Buckstein, Executive Vice President, General Counsel, Secretary and Director; Geoffrey A. Gaywood, Vice President and General Manager, European Region; Salvatore J. Guccione, Vice President, Personal Care Business; Richard B. Olsen, Senior Vice President and Chief Financial Officer; James P. Rogers, Senior Vice President, Finance and Treasurer; and Edward T. Wolynic, Vice President, Research and Development.

I am delighted that these pages afford me the opportunity to express my appreciation to all my fellow ISP employees, who have manifested ability,

efforts, and a degree of intensity far beyond the ordinary in the pursuit of our common endeavors.

While we are, to be sure, disappointed in the Company's operating performance this past year, I can assure you of the absolute commitment of all ISP employees to effect a meaningful turnaround of the Company's performance in 1994. Given the fundamental strengths of our business, the actions we have taken this past year as recounted in these pages, and the fact that we now have at the helm an exceptionally strong management team, we believe that we can look forward to a successful 1994.

Sincerely,



Samuel J. Heyman
Chairman of the Board
and Chief Executive Officer

March 30, 1994

International Specialty Products is one of the world's premier specialty chemicals companies with a broad line of specialty products, including specialty derivative chemicals, mineral products, filter products, and advanced materials. The Company has 16 domestic and international manufacturing facilities, including a joint-venture Company in Germany, GAF-Hüls Chemie GmbH, and markets its products in 75 countries throughout the world.

SPECIALTY DERIVATIVE CHEMICALS

ISP manufactures more than 300 specialty derivative chemicals having numerous applications in consumer and industrial products. The Company uses proprietary technology to convert a number of raw materials, through a chain of one or more processing steps, into increasingly complex and higher valued derivatives to meet specific customer requirements. The Company's specialty derivative chemicals, which include intermediates, solvents, vinyl ethers, and polymers, are derived primarily from acetylene, and the Company believes it produces the broadest line of acetylene derivatives available in the world. ISP is also a major producer of cosmetic and industrial preservatives through its Sutton Labs, skin care products including emollients, pearlescent pigments, and products for sunscreen applications through its Van Dyk business, and fine chemicals.

ISP's specialty derivative business is organized by end-use industries into three worldwide, market-oriented business units: Personal Care; Pharmaceutical, Agricultural and Beverage; and Industrial.

Personal Care

ISP produces a wide range of products for the personal care industry, providing thousands of well-known hair care, skin care, toiletry and cosmetic products with their high performance characteristics. For example, the Company is a leading manufacturer of hair fixatives through its Gantrez®, Gafquat®, and PVP/VA family of products, which provide hairsprays, mousses, and gels with their strong hair holding power. ISP's state-of-the-art laboratory in Wayne, New Jersey, which includes elaborate facilities for direct consumer testing of hair care products, has played an important role in the development of several significant new products, such as Gantrez® XL-80, a new, high performance hair spray additive which enables manufacturers to meet strict regulatory requirements involving reduction of volatile organic compounds (VOCs).

Through the development of several important new products and the acquisition of the Van Dyk personal care business, ISP has significantly strengthened its presence in the skin care market and now provides an extremely broad range of products, including ultraviolet absorbers, waterproofing agents, pigments, emollients and emulsifiers, for use in hundreds of consumer applications. Sales of ISP's sunscreen products, including the Van Dyk Escalol® line of ultraviolet absorbers, were substantially higher last year as a result of increased demand as well as the introduction of a new sunscreen product, Escalol® 597, which enhances the sun protection factor (SPF) of sun care products.

ISP's Sutton Labs produces specialty preservatives, which are marketed worldwide primarily to the cosmetics and personal care industries for use in hair and skin care products, bath and shower, baby, eye makeup, facial makeup and after-shave preparations, and nail products. Sales of Sutton products have increased significantly since ISP acquired the Company five years ago, with Sutton's growth having been primarily fueled by expansion of its overseas business. Last year, the Company commercialized LiquaPar® Oil, a unique liquid preservative, whose effectiveness and ease of use is expected to ensure the success of this product in a broad range of biocide applications. Sutton Labs recently launched a family of industrial preservatives, Integra™ 22 and Integra™ 44, designed for use in liquid laundry detergents, fabric softeners, dishwashing liquids, wet pulp processing, and water-based paints and coatings.

Pharmaceutical, Agricultural and Beverage

ISP's products for the pharmaceutical, agricultural, and beverage industries provide superior performance characteristics for a substantial number of end use products while enabling them at the same time to meet increasingly strict worldwide regulatory requirements.

In the pharmaceutical area, ISP products serve as key ingredients in tablets, injectables, cough syrups, antiseptics, toothpaste, denture adhesives and other oral preparations. ISP's Polyplasdone® excipients function as both the binding

agent to hold pharmaceutical tablets together and disintegrants which help release the active ingredient in a controlled manner. Sales of Polyplasdone® and Plasdone® excipients were higher in 1993 as a result of increased penetration of new and existing geographic markets as well as the wider use of these products in generic drugs. Moreover, the Company has several new research and development projects currently underway in the areas of direct compression tableting and innovative delivery systems such as transdermal patches.

ISP is a leading producer of inert ingredients for the agricultural industry, where the Company's solvent and polymer products are used for the formulation of safer and more effective agricultural applications. ISP's Agrimer® family of polymers and copolymers are, for example, integral components in formulations such as granules, tablets, and seed coatings, which serve not only to make these formulations safer and more effective but so also reduce the amount of pesticide required for effective pest control. A number of these products were among the first to receive approval for use as inert ingredients from the United States Environmental Protection Agency in 1992 following the agency's adoption of strict new regulations.

ISP has been a major participant in the beverage industry for many years, where ISP's leading product, Polyclar®, serves the function of ensuring the quality, and extending the shelf life of beer, wine, and fruit juices. Polyclar® Super R, just

introduced to the market last year, is fast gaining customer acceptance for its effectiveness in not only extending the useful life of the end use product but by reducing filtration times as well. The Company anticipates receiving regulatory approval in Japan this year for use of Polyclar® in Japan's beer industry, thereby promising to open a significant new market for the Company.

Industrial

ISP's specialty derivatives business produces numerous specialty polymers and vinyl ethers for use in a wide range of industrial markets, such as coatings, adhesives, electronics, and metal working, in addition to intermediate and solvent products such as butanediol and N-methyl pyrrolidone (NMP), whose primary applications are for use in high performance plastics, lubricating oil and chemical extraction, electronics cleaning, and coatings.

The Company continued last year to increase its penetration of the household, industrial and institutional cleaning market, with sales of its Gaftex® polymers growing substantially as a result of a new application using Gaftex® as a dye transfer inhibitor in laundry detergents to prevent the deposition of fugitive colors in mixed color washes. The Company is also developing several new industrial applications for its versatile product line, including an application for the next generation of high density television screens and computer color

monitors, where the Company's PVP polymers provide coatings for sharper, clearer images.

ISP has brought to the market over the past several years a family of new environmentally-friendly products, known as Engineered Solvents, to replace chlorinated and other volatile solvents, for use in a variety of industries for cleaning, stripping and degreasing. The product line includes, for example, formulated products especially designed for cleaning applications, such as ShipShape® for fiberglass boat manufacture, PrintSolve™ for graphic arts, FoamFlush® for polyurethane foam molders, Partsprep® for metal degreasing, and Micropure® CDF for electronics cleaning. Sales of the Company's engineered products increased significantly this past year and are expected to grow at even higher rates as regulatory requirements affecting chlorinated solvents become ever more restrictive.

MINERAL PRODUCTS

ISP's mineral products business manufactures ceramic colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company is one of only two major suppliers of colored roofing granules in North America, with its mineral roofing granules being sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they

provide weather resistance, decorative coloring, heat deflection, and increased weight.

Mineral products sales have benefited from an industry trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles, which require approximately 30% more granules than traditional three-tab lightweight roofing shingles. To meet anticipated increased demand, the Company will complete in the second quarter of 1994 a significant capacity expansion at its production facility in Blue Ridge Summit, Pennsylvania.

ISP's mineral products business is also the nation's leading producer of a fine granular material, now being marketed under its ADCOURT™ brand and formerly marketed under the name "Har-Tru®", for use in the construction of fast-drying clay tennis courts. The Company has been for many years the major supplier of this tennis court material in the northeastern region of the United States and is now in the process of expanding its market coverage to the southeastern part of the country as well.

FILTER PRODUCTS

ISP's filter products business produces complete filter systems, under the name "GAF Filter Systems", consisting of pressure filter vessels and filter bags designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum, municipal water, and food and beverage industries. ISP is a leading worldwide supplier of bag filtration equipment, and its strategy over the past

several years has been to develop new, higher value-added bag filtration products, expand its share of the filter vessels market, and increase the geographic penetration of its business in the United States as well as the Asia-Pacific and Latin American regions of the world.

The Company operates one domestic and four international production facilities. While the primary geographic market for the Company's filter products has traditionally been Europe, ISP began to expand its market penetration in the Asia-Pacific region four years ago, and in 1992 opened a production, distribution, and sales center in Memphis, Tennessee, to better serve the United States market.

The Company has been one of the most innovative leaders in the bag filtration industry in terms of the introduction of higher value-added bag filtration products, having recently developed the Accurate™ 1 high efficiency bag filter, which accommodates higher flow rates and has a longer service life than equivalent-rated cartridge filters. The Accurate™ 1 product is gaining wide acceptance in such diverse liquid filtration applications as paints and coatings; beer, vinegar and edible oils; and a wide variety of process chemicals. Most recently, one of New York City's largest residential office buildings chose to use the Accurate™ 1 in connection with a large potable water filtration system for the building. The Company has also recently introduced a new range of POXL™ Extended Life Filter bags, which helps its customers to substantially reduce their costs through

waste minimization, reduced maintenance, and the extension of useful filter life. These new products offer significant growth potential for ISP's filters business, as they satisfy the needs of its customers for cost effective filtration and waste disposal minimization.

ADVANCED MATERIALS

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders, sold under the Company's trademark, Micropowder®, for use in a number of applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical, and food industries. In addition, the Company's FDA-approved Ferronyl® iron has been widely accepted as an iron supplement in multi-vitamins and other pharmaceutical products and is widely regarded by medical experts as safer for these uses than iron salts.

ISP's Advanced Materials business markets in addition a growing range of unique and innovative products, including RAD-SURE®, radiation-sensitive labels which indicate whether hospital blood bags have been properly irradiated; PERM® and GAFCHROMIC® processless electron recording films for a variety of instant imaging, data recording and medical dosimetry applications; and DOSE-MAP™, a product introduced last year for measuring the radiation distribution of blood irradiation devices.

INTERNATIONAL OPERATIONS

As a result of the Company's continued penetration of existing overseas markets and expansion into new ones, ISP's international sales have grown at an average annual compounded rate of 16% over the past ten years and now constitute more than 50% of the Company's total specialty derivative sales. This has been accomplished by the development of direct sales capability, through the opening of new marketing and sales offices in 11 countries, including Russia, the People's Republic of China, Hungary, Taiwan, and Argentina, and the initiation of direct export sales in four other countries. Virtually all of ISP's specialty derivative chemical and filter product lines are now sold internationally, and approximately 80% of ISP's revenues outside the United States are currently generated by the Company's own sales force, with the remainder originating through a worldwide network of experienced distributors.

As part of its plan to further its international expansion, ISP intends to construct a new European specialty chemicals manufacturing complex to meet the needs of its European business. ISP's European customers for specialty derivative chemicals are currently being served by the Company's plants in the United States, as well as its joint venture manufacturing operation at Marl, Germany, and the new facility should enable the Company to reduce its distribution costs and better serve its growing European customer base.

RESEARCH AND DEVELOPMENT

ISP continued its commitment this past year to a strong research and development effort in connection with new products and applications as well as process improvements. To this end, the Company upgraded its technical staff particularly in the personal care area; increased its focus on process improvement in furtherance of the Company's overall cost reduction goal; and expanded its Science Advisory Board, now comprised of six world-class scientists who regularly review, and offer guidance and counsel with respect to, the Company's entire research and development operations.

As a result of the Company's investment over the past four years in research and development, ISP has been able to develop, introduce and market more than 50 new products and hundreds of new applications during this period of time, including: Suttocide® A, a Sutton Labs broad spectrum preservative which is especially effective in shampoos, conditioners and other personal care products; the Ceraphyl® line of moisturizing agents for creams, lotions and a host of other skin care products; Stabileze™, a family of specialty thickeners which provide clear gels with unique performance and aesthetic properties for the hair and skin care markets; Ganex® water-proofing agents for use in sunscreen and skin care products; Agrimax™, an environmentally-friendly

formulation for use in agricultural markets where it enhances the effectiveness of pesticides by providing greater adhesion to foliage; Trimedlure™, an ISP Fine Chemical pheromone used to control and monitor the Mediterranean fruit fly; and a new algae-resistant mineral granule which has application for asphalt roofing shingles in hot, humid environments.

CAPITAL EXPANSION PROGRAM

The Company continued this past year an aggressive capital expansion program, committing substantial financial resources to the modernization of its plants and equipment at the rate of more than \$50 million per annum for the second consecutive year. In this connection, the Company has now completed, or is in the process of completing, capacity expansions with regard to most of its high-value specialty chemicals lines, including PVP K90, Gantrez®, Plasdone®, and Polyclar® products. So also, the capital program includes process improvement projects designed to improve manufacturing efficiency and product quality as well as reduce costs. The Company intends to continue its capital programs in 1994 at a level comparable to that of the previous two years.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

In 1991, International Specialty Products Inc. (the "Company"), an indirect subsidiary of GAF Corporation ("GAF"), acquired substantially all of the operating businesses then conducted by GAF Chemicals Corporation ("GCC"). In July 1991, the Company completed an initial public offering of 19.4 million shares, or 19.4%, of its common stock.

1993 COMPARED WITH 1992

In 1993, the Company recorded net income of \$29.6 million (\$.30 per share) compared with net income of \$50.1 million (\$.50 per share) for the year 1992. The net income in 1993 reflects a retroactive income tax provision of \$2.9 million, representing the effect of a 1% increase in the Federal corporate income tax rate on the Company's net deferred tax liability as of December 31, 1992, and a pre-tax provision of \$13.8 million primarily related to the Company's cost reduction program announced in October 1993 (see Note 3 of Notes to Consolidated Financial Statements). Net income for 1992 reflects a one-time charge of \$7.1 million (\$.07 per share) representing the cumulative effect of the change in accounting for postretirement benefits other than pensions, net of a related income tax benefit of \$3.9 million.

The 1993 results were impacted by lower operating income (down \$42.6 million including the \$13.8 million restructuring charge) and by lower earnings of the GAF-Hüls joint venture ("GAF-Hüls") (down \$3.9 million), partially offset by a \$6.1 million reduction in interest expense and a \$4.5 million improvement in other income.

Sales for 1993 were \$548.3 million compared with \$570.8 million for the year 1992. This sales decrease was primarily attributable to lower sales of mineral products (down 20%) as a result of lower customer demand due primarily to customers lost as a result of increased competition and the absence of storm damage which increased sales in the latter half of 1992; and the adverse effect of a stronger dollar, which impacted sales by \$20.2 million. The foregoing factors were partially offset by higher sales of specialty derivative products in the Asia-Pacific region of \$12.3 million and the combined incremental sales of the Van Dyk personal care (acquired in

March 1992) and the MTM fine chemicals (acquired in February 1993) businesses, which totaled \$14.8 million.

Operating income for 1993 was \$65.1 million compared with \$107.7 million for 1992, with the decrease resulting primarily from the \$13.8 million restructuring charge mentioned above, the adverse effect of a stronger dollar, which impacted operating income by \$15.6 million, lower operating income from mineral products (down \$10.7 million) as a result of the aforementioned sales decline, increased selling, general and administrative expenses, and higher manufacturing costs of specialty derivative chemicals. Such higher manufacturing costs were due to increased production costs (mostly salaries and wages and depreciation related to increased capital investments) coupled with reduced production rates (as the production rate decline which began in the fourth quarter of 1992 and was designed to bring inventories in line with reduced demand continued into the first quarter of 1993).

Of the \$28.8 million decrease in operating income in 1993 (before the \$13.8 million restructuring charge), domestic operating income decreased by \$25.2 million, and operating income from Europe decreased by \$7.9 million, while operating income from other foreign operations increased by \$4.3 million, mainly in the Asia-Pacific region. The larger decrease in domestic operating income as compared to non-U.S. operating income was primarily due to the higher manufacturing costs for specialty derivative chemicals discussed above, which costs were not allocated to non-U.S. operations.

Interest expense for 1993 was \$24.5 million, a reduction of \$6.1 million from \$30.6 million in 1992. The decrease was attributable to lower interest rates and reduced average outstanding borrowings.

Other income was \$7.2 million in 1993 compared with \$2.7 million in 1992. This category is comprised of foreign exchange gains/losses resulting primarily from revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, other nonoperating and nonrecurring items of income and expense, and net investment income. The increase in 1993 was due principally to higher investment income, partially offset by higher foreign exchange translation losses

Management's Discussion and Analysis of Financial Condition and Results of Operations continued

and costs related to the sale of accounts receivable (see Note 5 of Notes to Consolidated Financial Statements).

1992 COMPARED WITH 1991

In 1992, the Company recorded net income of \$50.1 million (\$.50 per share based on 99.9 million shares outstanding) compared with net income of \$50.6 million (\$.56 per share based on an average of 90.2 million shares outstanding) for the year 1991. Net income for 1992 reflects a one-time charge of \$7.1 million (\$.07 per share) representing the cumulative effect of the change in accounting for postretirement benefits other than pensions, net of a related income tax benefit of \$3.9 million.

Income for 1992 before the one-time charge was \$57.2 million (\$.57 per share), an increase of \$6.5 million (13%) over the prior year. The improved results were attributable to a \$22.1 million reduction in interest expense and a \$4.1 million improvement in other income (expense), partially offset by a \$14.2 million decline in operating income and lower earnings of GAF-Hüls.

Sales for 1992 increased \$45 million to \$570.8 million compared with \$525.8 million in 1991. The sales increase was attributable primarily to growth in the Company's mineral products due to stronger roofing demand, increased sales of high margin specialty products, and the acquisition in March 1992 of the Van Dyk personal care business, partially offset by lower sales of intermediates and solvents. Van Dyk sales were approximately \$22.5 million for 1992 (4% of the Company's sales).

Operating income for 1992 was \$107.7 million, down \$14.2 million from \$121.9 million in 1991, with specialty derivative chemicals down by \$20.9 million and mineral products up by \$6.9 million. The leading factor contributing to the decrease in specialty derivative chemicals was higher selling, general and administrative costs of \$10.3 million in connection with the Company's increased marketing, sales and research and development efforts. The remainder of the decrease in specialty derivative chemicals was due primarily to higher manufacturing costs and, to a lesser extent, a provision for obsolete inventory and reduced pricing for the Company's intermediate and

solvent products as a result of increased competition brought on by the entry of new competition for these products which led to some lower market pricing. The higher manufacturing costs in specialty derivative chemicals were primarily attributable to unabsorbed overhead in the fourth quarter of 1992 as a result of a reduction in inventory levels brought about as a result of the Company's continuing efforts to match production volumes to sales levels which, in the fourth quarter of 1992, were below expectations. These factors were partially offset by the absence of a \$3.8 million one-time charge associated with the termination of GAF's Equity Appreciation Plan in 1991 (GAF maintained an Equity Appreciation Plan, which was terminated upon completion of the initial public offering). See Note 9 of Notes to Consolidated Financial Statements. The strong performance by the Company's mineral products business in 1992 resulted from increased roofing demand, which was fueled in part by damage from several storms which occurred in many areas of the United States.

Domestic operating income and non-U.S. operating income in 1992 declined by \$11.7 and \$2.5 million, respectively. The larger decrease in domestic operating income as compared to non-U.S. operating income was primarily due to the higher manufacturing costs for specialty derivative chemicals discussed above, which costs were not allocated to non-U.S. operations.

A customer of the Company's mineral products business determined not to renew its contract with the Company effective January 1, 1993 (the contract's expiration) and to place a portion of its contract volume with another supplier, such portion representing approximately 3% of the Company's total annual sales.

Interest expense for 1992 was \$30.6 million, a reduction of \$22.1 million from \$52.7 million in 1991. The reduction was due both to lower average debt outstanding and lower interest rates.

Other income was \$2.7 million in 1992, compared with other expense of \$1.4 million in 1991. This category is comprised of foreign exchange gains/losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, other nonoperating and nonrecurring items of income and

expense, and net investment income. The improvement in 1992 was due primarily to higher income from investments and lower foreign exchange losses.

JOINT VENTURE

GAF-Hüls' sales were \$104.2 million in 1991, \$99.4 million in 1992 and \$84.9 million in 1993. The decline in sales was primarily the result of lower demand from European markets as a result of an economic slowdown, increased competition from the entry of another producer into the European market, and lower purchases of butanediol from GAF-Hüls by the Company.

The Company's equity in the earnings of the joint venture declined from \$7.9 million in 1991 to \$6 million in 1992 and \$2.1 million in 1993. The recent decrease in earnings of the joint venture is attributable to the recession in Europe and the entrance of new suppliers of the products which it produces, which have resulted in decreased pricing and lower sales volumes, and raw material cost increases. The Company expects a continued decline in earnings of the joint venture in 1994. The recovery of the European economy and the aggressiveness of the new suppliers will be important elements in determining the profitability of the joint venture in the future.

LIQUIDITY AND FINANCIAL CONDITION

During 1993, the Company generated cash from operations of \$88 million, and reinvested \$62.9 million for capital programs and the acquisition of the MTM fine chemicals business, for a net cash inflow of \$25.1 million before financing activities.

Net cash used in financing activities in 1993 was \$24.1 million, principally comprised of a \$125.3 million paydown of borrowings under the Company's bank credit agreement ("Credit Agreement"), in part offset by \$24.3 million of proceeds from the sale of accounts receivable, \$25.1 million proceeds from the termination of interest rate swap agreements, \$46.3 million of additional borrowings from an affiliate, and \$10.6 million of additional short-term borrowings. The Company

declared dividends of \$5 million (\$.05 per share) on its common stock during 1993.

As a result of the foregoing factors, cash and short-term investments increased by \$1.1 million during 1993 to \$82.8 million. The Company has short-term investments in equity and debt securities, and in addition, at times the Company holds certain common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short position securities. The Company is exposed to market risk in connection with its short-term investments. See Note 2 of Notes to Consolidated Financial Statements.

In connection with its 9% Senior Notes, the Company entered into interest rate swap agreements in 1992, which were terminated and replaced with new swap agreements in 1993. See Note 8 of Notes to Consolidated Financial Statements.

In June 1993, the Company completed a transaction involving the sale of its domestic trade accounts receivable ("domestic receivables"), without recourse, to a non-affiliated third party for a maximum of \$25 million in cash to be made available to the Company based on eligible domestic receivables outstanding from time to time. As of December 31, 1993, the Company had sold \$23.7 million of domestic receivables and had received \$24.3 million in proceeds. Proceeds provided to the Company are adjusted on the fifteenth business day of each month, based on domestic receivables as of the end of the prior month. Accordingly, prior to each monthly adjustment, the Company may have a receivable from or payable to the purchaser of the domestic receivables. As of December 31, 1993, the Company had a payable to the purchaser of \$6 million. See Note 5 of Notes to Consolidated Financial Statements.

On October 5, 1993, G-I Holdings Inc. ("G-I Holdings"), the indirect owner of 80.6% of the Company's common stock, issued Senior Discount Notes due 1998. Under the indenture related to such notes, the incurrence by the Company of additional debt and the issuance by the Company of preferred stock would be restricted unless, subject to certain exceptions, the ratio of the Company's consolidated

Management's Discussion and Analysis of Financial Condition and Results of Operations continued

income before income tax, interest, depreciation and amortization expense to its consolidated interest expense for its most recently completed four fiscal quarters is at least 2 to 1. For the four quarters ended December 31, 1993, such ratio was 4.91 to 1.

As of December 31, 1993, the Company was contingently liable under letters of credit aggregating \$9.5 million, of which \$2.5 million secures amounts due under the Company's industrial revenue bond obligation and \$1.9 million was issued for the benefit of affiliates of the Company. The Credit Agreement permits the Company to make loans to affiliates and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to \$50 million; as of December 31, 1993, \$1.9 million of such amount had been utilized for the aforementioned letters of credit.

Borrowings under the Credit Agreement are subject to the application of certain financial covenants contained in such agreement which provide that (1) the Company will not permit the ratio of its consolidated income before income tax, interest, depreciation and amortization expense to its consolidated interest expense for its most recently completed four fiscal quarters to be less than 3 to 1 for periods ending on or before December 31, 1994 and 3.25 to 1 for periods after December 31, 1994, and (2) the Company will not permit the ratio of its total consolidated indebtedness to the sum of adjusted net worth plus total consolidated indebtedness to be more than .55 to 1 on any date on or prior to December 31, 1994 and .50 to 1 on any date after December 31, 1994. As of December 31, 1993, the application of the foregoing tests did not restrict amounts available for borrowing under the Credit Agreement.

The Credit Agreement permits the Company to pay cash dividends and make other restricted payments (as defined) of up to 50% of the sum of its consolidated net income after January 1, 1992 plus the aggregate net cash proceeds from issuance of the Company's common stock after July 23, 1992, provided that after giving effect to such dividends and restricted payments, the ratio of the Company's operating cash flow to fixed charges (including cash dividends and restricted payments) for its most

recently completed four fiscal quarters is at least 1 to 1. If the ratio is lower than 1 to 1, the Company is permitted under the Credit Agreement to pay cash dividends up to \$15 million in the aggregate. In addition, under the indenture relating to the Company's 9% Senior Notes, the aggregate amount of cash dividends and other restricted payments made by the Company after September 30, 1991 may not exceed the sum of \$50 million, 75% of the Company's consolidated net income (or 100% of its consolidated net loss) on a cumulative basis since such date and the aggregate net proceeds received by the Company since such date for shares of its capital stock or debt converted into shares of its capital stock. As of December 31, 1993, under the most restrictive of the foregoing tests, the Company could have paid dividends in the aggregate amount of \$15 million.

As of December 31, 1993, the Company's scheduled repayments of long-term debt for the twelve months ending December 31, 1994 aggregated \$.7 million.

The Company intends to construct a European manufacturing facility to meet the needs of its European business. The Company is currently considering a number of alternative plant sites and plans to develop the facility in stages over a four-to-six year period. The Company anticipates utilizing internally generated funds and/or independent financing to fund the cost of the project. The first phase of the European plant would increase the Company's polymer capacity. The Company's sales have not been restricted by capacity restraints and the Company believes that it has sufficient capacity at its disposal to meet demand until the European plant is on line.

Fluctuations in the value of foreign currencies may cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot estimate in any meaningful way the possible effect of such fluctuations upon future income. The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies, including entering into foreign exchange contracts from time to time in order to hedge its exposure. As of December 31, 1993 and 1992, outstanding foreign exchange

contracts were \$70.5 and \$4.3 million, respectively. See Note 2 of Notes to Consolidated Financial Statements for further discussion.

The parent corporations of the Company, including GAF, G-I Holdings, G Industries Corp. and GCC, are essentially holding companies without independent businesses or operations and, as such, are dependent upon the cash flow of their subsidiaries, including the Company, in order to satisfy their obligations, including the asbestos-related claims discussed below and certain potential tax liabilities including tax liabilities relating to Rhone-Poulenc Surfactants and Specialties, L.P. For a description of such obligations, see Notes 4 and 17 of Notes to Consolidated Financial Statements. In the event that such parent corporations were unable to meet their cash needs from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise, to make loans to its parent corporations or cause GCC to sell shares of the Company's common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries should have a material adverse effect on the operations, liquidity or capital resources of the Company.

Given the current ownership structure of the Company, the ability of the Company to utilize common stock financings for capital expenditures, acquisitions and other corporate purposes, and the ability of GCC to sell shares of the Company's common stock owned by it, are presently impeded because GCC would be unable to utilize significant tax benefits or to receive tax sharing payments, and significant adverse tax consequences to GCC would occur, in the event that GCC were to own less than 80% of the outstanding shares of the Company's common stock. Such tax consequences would be eliminated over time as the Company generates earnings. In light of the foregoing, as well as the current market price of the Company's common stock, GCC has advised the Company that it does not currently intend to dispose of shares of the Company's common stock, and the Company does not currently intend to issue shares of its common stock.

Sales, operating income and identifiable assets by geographic area are set forth in Note 14 of Notes to Consolidated Financial Statements. For information with respect to income taxes, see Note 4 of Notes to Consolidated Financial Statements.

The Company does not believe that inflation has had an effect on its results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste disposal facility at its Linden, New Jersey property, which designation has been appealed to the Courts by the City of Linden. If the Company is successful in securing the necessary permits to construct and operate the hazardous waste facility, the Company intends to develop and operate the facility in a separate subsidiary either on its own or in a joint venture with a suitable partner. If the Company develops and operates the facility on its own, it would require the consent of the banks under the Credit Agreement. The Company estimates that the cost of constructing the facility will be approximately \$100 million. If approved, the facility is anticipated to be in operation by 1997, although there can be no assurance as to when operations will begin. If the required approvals and permits are obtained, the Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor and, accordingly, would not expect such facility to impact materially the Company's liquidity or capital resources.

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and similar state laws, in which recovery is sought for the cost of cleanup of contaminated waste disposal sites. A number of the Environmental Claims are in the early stages and others have been dormant for protracted periods.

Management's Discussion and Analysis of Financial Condition and Results of Operations

INTERNATIONAL SPECIALTY PRODUCTS INC.

continued

At each site, the Company anticipates, although there can be no assurance, that liability will be apportioned among the companies found to be responsible for the presence of hazardous substances at the site. Although it is difficult to predict the ultimate resolution of these claims, based on the Company's evaluation of the financial responsibility of the parties involved and their insurers, the merits of the defenses of the Company and other parties and the nature and terms of cost sharing arrangements now in place among the potentially responsible parties, the Company estimates that its liability in respect of all Environmental Claims, as of December 31, 1993, will be approximately \$17.2 million. After a reduction for anticipated insurance recoveries (discussed below) of \$7 million, the Company estimates that its net liability will be approximately \$10.2 million.

Although the Company believes it is entitled to substantially full defense and indemnity under its insurance policies for all Environmental Claims, the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for the matters discussed above. Nevertheless, the insurers have agreed to reimburse the Company for a substantial portion of its indemnity obligations in a number of these cases and the Company has also reached agreements with certain of its insurers regarding the Company's defense costs and other related expenses and, pursuant to these agreements, certain insurers are currently paying a portion of the Company's defense costs. After considering the relevant legal issues, prevailing commercial practice in the resolution of similar claims and the agreements discussed above, the Company believes that it is probable that it will receive the anticipated insurance recoveries, although there can be no assurance in this regard.

In the opinion of the Company's management, the environmental matters referred to herein will be resolved and amounts will be paid gradually over a period of years and, accordingly, the resolution of such matters should not be material to the business, liquidity or financial position of the Company. However, adverse decisions or events, particularly as to the merits of the Company's factual and legal defenses to liability and the financial responsibility of

the other parties involved at each site, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

GAF has advised the Company that as of December 31, 1993, GAF had been named as a co-defendant in approximately 53,000 lawsuits alleging health claims relating to the inhalation of asbestos fiber and a co-defendant in 23 lawsuits alleging economic and property damage or other injuries caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from various premises. Neither the Company nor the assets or operations of the Company or GCC, which was operated as a division of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. Consequently, the Company believes that such claims should not have a material effect on the Company's business, financial condition or results of operations. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims, but the Company cannot predict whether any such claims will be asserted against it or the outcome of any litigation relating to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of common stock of the Company, and such enforcement could result in a change of control of the Company. For further information regarding asbestos-related claims against GAF, see Note 17 of Notes to Consolidated Financial Statements.

Selected Financial Data

INTERNATIONAL SPECIALTY PRODUCTS INC.

Set forth below are selected consolidated financial data of the Company and its predecessor company. The capital structure and accounting bases of the assets and liabilities of the Company subsequent to April 2, 1989 differ from those of the predecessor company for prior periods as a result of the Acquisition (see Note 1 of Notes to Consolidated Financial Statements). Financial data of the predecessor company are presented on a historical cost basis. Financial data of the Company reflect the Acquisition under the purchase method of accounting. Accordingly, financial data for periods

subsequent to the Acquisition are not comparable with data for periods prior thereto, because the periods subsequent to the Acquisition reflect interest expense on Acquisition borrowings as well as non-cash charges that are not applicable to the predecessor company, consisting of goodwill amortization and depreciation of increased asset values resulting from the Acquisition. Such non-cash charges amounted to \$22.4, \$22.3, \$22.4, \$22.3 and \$16.5 million for the years 1993, 1992, 1991, 1990 and the nine months ended December 31, 1989, respectively.

(Dollars in thousands, except per share amounts)	Year Ended December 31,				Company Nine Months Ended December 31, 1989	Predecessor Company First Quarter Ended April 2, 1989
	1993	1992	1991	1990		
Operating data:						
Net sales	\$ 548,252	\$ 570,757	\$ 525,786	\$ 511,652	\$ 354,677	\$ 114,885
Operating income	65,091	107,664	121,852	116,764	77,657	27,232
Interest expense	24,500	30,595	52,693	85,224	66,434	2,032
Income before income taxes	49,823	85,782	75,682	42,037	20,705	29,244
Income before cumulative effect of accounting change	29,558	57,182	50,646	30,559	12,192	18,248
Net income	29,558	50,113	50,646	30,559	12,192	18,248
Earnings per common share:						
Income before cumulative effect of accounting change	\$.30	\$.57	\$.56	\$.38	\$.15	N/A
Net income	\$.30	\$.50	\$.56	\$.38	\$.15	N/A
Dividends per common share	\$.05	\$.05	\$ —	\$ —	\$ —	N/A
Other data:						
Operating margin	11.9%	18.9%	23.2%	22.8%	21.9%	23.7%
Depreciation	\$ 28,737	\$ 25,610	\$ 23,247	\$ 22,308	\$ 14,641	\$ 2,314
Goodwill amortization	13,856	13,706	13,825	13,754	10,061	—
Capital expenditures and acquisitions	62,858	70,464	34,422	35,627	54,884	3,837
					Company December 31, 1989	
	1993	1992	1991	1990		
Balance Sheet data:						
Total working capital	\$ 78,263	\$ 179,310	\$ 94,715	\$ 65,658	\$ 95,400	
Total assets	1,243,315	1,270,418	1,151,175	1,140,592	1,137,176	
Long-term debt	367,722	493,025	413,746	698,044	734,018	
Stockholders' equity	534,012	516,999	483,797	154,621	143,764	

Consolidated Statements of Income

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands, except per share amounts)	Year Ended December 31,		
	1993	1992	1991
Net sales	\$ 548,252	\$ 570,757	\$ 525,786
Costs and expenses:			
Cost of products sold	329,517	324,876	279,671
Selling, general and administrative	125,961	124,511	110,438
Provision for restructuring	13,827	-	-
Goodwill amortization	13,856	13,706	13,825
Total costs and expenses	483,161	463,093	403,934
Operating income	65,091	107,664	121,852
Interest expense	(24,500)	(30,595)	(52,693)
Equity in earnings of joint venture	2,051	5,996	7,894
Other income (expense), net	7,181	2,717	(1,371)
Income before taxes and cumulative effect of accounting change	49,823	85,782	75,682
Income taxes:			
Annual provision - current and deferred	(17,320)	(28,600)	(25,036)
Adjustment of deferred tax liability for change in tax rate	(2,945)	-	-
Income before cumulative effect of accounting change	29,558	57,182	50,646
Cumulative effect of change in accounting for postretirement benefits other than pensions, net of \$3,913 income tax benefit	-	(7,069)	-
Net income	\$ 29,558	\$ 50,113	\$ 50,646

Earnings per common share:			
Income before cumulative effect of accounting change	\$.30	\$.57	\$.56
Cumulative effect of accounting change	-	(.07)	-
Net income	\$.30	\$.50	\$.56
Weighted average number of common shares outstanding	99,889	99,889	90,194

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands)	December 31,	
	1993	1992
ASSETS		
Current Assets:		
Cash	\$ 11,022	\$ 11,162
Short-term investments	71,764	70,517
Accounts receivable, trade, less reserve of \$2,313 and \$2,105	41,656	66,466
Accounts receivable, other	7,650	8,684
Inventories	103,700	105,528
Other current assets	14,229	11,874
Receivable from related parties, net	-	8,172
Total Current Assets	250,021	282,403
Property, plant and equipment, net	478,514	452,072
Excess of cost over net assets of businesses acquired, net of accumulated amortization of \$65,202 and \$51,346	457,084	470,939
Other assets	57,696	65,004
Total Assets	\$ 1,243,315	\$ 1,270,418
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 12,848	\$ 2,211
Current maturities of long-term debt	681	570
Loan payable to related party	66,787	20,470
Accounts payable	39,607	33,761
Accrued liabilities	45,388	33,583
Payable to related parties, net	3,583	-
Income taxes	2,864	12,498
Total Current Liabilities	171,758	103,093
Long-term debt less current maturities	367,722	493,025
Deferred income taxes	92,511	102,535
Other liabilities	77,312	54,766
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value per share; 20,000,000 shares authorized	-	-
Common stock, \$.01 par value per share; 300,000,000 shares authorized:		
99,888,646 shares issued and outstanding	999	999
Additional paid-in capital	504,572	504,572
Excess of purchase price over adjusted historical cost of Predecessor Parent		
Company shares owned by GAF's stockholders	(63,483)	(63,483)
Retained earnings	92,738	68,174
Cumulative translation adjustment and other	(814)	6,737
Total Stockholders' Equity	534,012	516,999
Total Liabilities and Stockholders' Equity	\$ 1,243,315	\$ 1,270,418

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

INTERNATIONAL SPECIALTY PRODUCTS INC.

	Year Ended December 31,		
(Thousands)	1993	1992	1991
Cash and short-term investments, beginning of year	\$ 81,679	\$ 10,085	\$ 19,317
Cash provided by operating activities:			
Net income	29,558	50,113	50,646
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	28,737	25,610	23,247
Goodwill amortization	13,856	13,706	13,825
Cumulative effect of accounting change	-	7,069	-
Provision for restructuring	13,827	-	-
Deferred income taxes	(13,542)	6,844	2,455
(Increase) decrease in working capital items	2,868	(11,348)	(22,414)
(Increase) decrease in other assets	6,586	(850)	(12,024)
Increase (decrease) in other liabilities	1,847	(1,539)	(6,485)
(Increase) decrease in net receivable from/payable to related parties	10,234	(3,010)	(1,741)
Change in cumulative translation adjustment	(6,291)	(10,246)	(215)
Other, net	340	948	(189)
Net cash provided by operating activities	88,020	77,297	47,105
Cash used in investing activities:			
Capital expenditures and acquisitions	(62,858)	(70,464)	(34,422)
Cash provided by (used in) financing activities:			
Proceeds from sale of accounts receivable	24,284	-	-
Proceeds from termination of interest rate swap agreements	25,069	-	-
Proceeds from initial public offering	-	-	281,272
Increase (decrease) in short-term debt	10,637	2,106	(9,212)
Proceeds from debt financing	-	200,000	-
Repayments of long-term debt	(125,820)	(145,899)	(291,680)
Loan from related party	46,317	20,470	-
Financing fees and expenses	(176)	(6,922)	-
Dividends and distributions	(4,994)	(4,994)	(27,591)
Capital contribution by parent company	-	-	25,232
Other, net	628	-	64
Net cash provided by (used in) financing activities	(24,055)	64,761	(21,915)
Net change in cash and short-term investments	1,107	71,594	(9,232)
Cash and short-term investments, end of year	\$ 82,786	\$ 81,679	\$ 10,085

Consolidated Statements of Cash Flows continued

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands)	Year Ended December 31,		
	1993	1992	1991
Supplemental Cash Flow Information:			
Effect on cash from (increase) decrease in working capital items*:			
Accounts receivable	\$ 2,499	\$ 1,915	\$ 8,752
Inventories	4,306	(8,083)	(10,120)
Other current assets	1,239	4,899	(2,219)
Accounts payable	5,036	(2,746)	(1,782)
Accrued liabilities	(896)	(6,369)	(12,074)
Income taxes	(9,316)	(964)	(4,971)
Net effect on cash from (increase) decrease in working capital items	\$ 2,868	\$ (11,348)	\$ (22,414)

* Working capital items exclude cash, short-term investments, short-term debt and the loan payable to related party. Working capital acquired in connection with acquisitions is accounted for within "Capital expenditures and acquisitions" in the Consolidated Statements of Cash Flows. The effects of reclassifications between noncurrent and current assets and liabilities are excluded from the amounts shown above. In addition, the decrease in accounts receivable shown above for 1993 is before giving effect to the proceeds from the sale of the Company's domestic trade accounts receivable (see Note 5 of Notes to Consolidated Financial Statements), which is reflected in cash from financing activities in the Consolidated Statements of Cash Flows.

Cash paid during the year for:			
Interest (net of amount capitalized)	\$ (23,969)	\$ (27,720)	\$ (55,577)
Income taxes (including taxes paid pursuant to the Tax Sharing Agreement)	(38,703)	(24,753)	(25,211)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Stockholders' Equity

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands)	Capital Stock and Additional Paid-in Capital	Cumulative Translation Adjustment and Other	Retained Earnings
December 31, 1990	\$ 199,067	\$ 19,037	\$ -
Net income	-	-	50,646
Proceeds from initial public offering	281,272	-	-
Translation adjustment	-	(215)	-
Dividends and distributions to parent company	-	-	(27,591)
Capital contribution by parent company	25,232	-	-
Unfunded pension liability	-	(168)	-
December 31, 1991	\$ 505,571	\$ 18,654	\$ 23,055
Net income	-	-	50,113
Translation adjustment	-	(10,246)	-
Dividends declared (\$.05 per common share)	-	-	(4,994)
Unfunded pension liability	-	(1,671)	-
December 31, 1992	\$ 505,571	\$ 6,737	\$ 68,174
Net income	-	-	29,558
Translation adjustment	-	(6,291)	-
Dividends declared (\$.05 per common share)	-	-	(4,994)
Unfunded pension liability	-	(1,260)	-
December 31, 1993	\$ 505,571	\$ (814)	\$ 92,738

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Note

1

FORMATION OF THE COMPANY

International Specialty Products Inc. (the "Company") was formed on April 25, 1991 and is an 80.6% owned subsidiary of GAF Chemicals Corporation ("GCC"), which is a wholly owned subsidiary of G Industries Corp. ("G Industries"), which in turn is a wholly owned subsidiary of G-I Holdings Inc. ("G-I Holdings"). G-I Holdings is a wholly owned subsidiary of GAF Corporation ("GAF"). On April 26, 1991, the Company issued 10 shares of its common stock to GCC in exchange for \$10.00. The Company acquired all the shares of the capital stock of the subsidiaries of GCC which owned substantially all of GCC's operating assets. The Company and its subsidiaries also assumed GCC's liabilities related to such assets and certain intercompany notes then outstanding. In connection with these transactions, the Company issued an additional 80,499,990 shares of its common stock to GCC and entered into certain agreements with its affiliates (see Notes 4 and 11). The foregoing transactions did not result in any change in the accounting bases of the Company's assets and liabilities.

The accompanying consolidated financial statements have been prepared on a basis which retroactively reflects the formation of the Company, as discussed above, for all periods presented. Stockholders' equity, long-term debt and the related interest expense and income tax effect thereon have been reflected retroactively for each of the periods presented. Excess cash generated prior to July 1, 1991 has been reflected as dividends and/or distributions to GCC for all periods presented.

In July 1991, the Company completed an initial public offering of 19,388,646 shares, or 19.4%, of its common stock. The net proceeds of \$281.3 million from the initial public offering were paid by the Company to G Industries to reduce the Company's then-existing intercompany term note.

A predecessor company to GAF (the "Predecessor Parent Company") was acquired on March 29, 1989 in a management-led buyout (the "Acquisition"). The Acquisition was accounted for under the purchase method of accounting. Accordingly, the historical book values of the assets and liabilities of GCC's predecessor company prior to the Acquisition were adjusted to their fair values as estimated at March 29, 1989. As a result, an excess of cost over net assets of businesses acquired ("goodwill") was recorded, of which \$494.5 million was allocated to the Company.

Since certain members of the management group beneficially owned shares of the Predecessor Parent

Company's common stock before the Acquisition and own shares of GAF after the Acquisition, the purchase method of accounting does not apply to their shares. Accordingly, for accounting purposes, stockholders' equity reflects the total shares of the Predecessor Parent Company owned by the management group at their respective adjusted historical costs, reduced by the consideration paid by GAF for the Predecessor Parent Company shares owned by the management group (which consideration included payments by the Predecessor Parent Company to cancel outstanding options for stock of the Predecessor Parent Company), resulting in a reduction in stockholders' equity, of which \$63.5 million was allocated to the Company.

Note

2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accounts of all of the Company's subsidiaries are included in the accompanying consolidated financial statements. All significant intercompany transactions and balances have been eliminated. The Company's 50% ownership of a foreign chemical manufacturing company is accounted for by the equity method (see Note 12).

Short-Term Investments

The Company considers its short-term investments in equity and debt securities to be cash equivalents. Such investments are stated at the lower of cost or market, with an aggregate cost at December 31, 1993 of \$71.8 million and a market value of \$72.2 million at that date. The aggregate cost at December 31, 1992 was \$70.5 million, with a market value of \$71.7 million at that date. Net investment income is included in "Other income (expense), net" in the Consolidated Statements of Income, and in 1993 and 1992 included \$10.9 and \$2.8 million, respectively, of net realized gains from sales of securities. The determination of cost in computing realized gains and losses on investments is based on the specific identification method.

In addition to the foregoing, at times the Company holds certain common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short position securities. As of December 31, 1993 and 1992, the Company had \$7.9 and \$19.1 million, respectively, of short positions in common stocks, based on market value. With respect to securities sold short, the Company is exposed to the risk of market loss if the market value of the securities sold short should increase and the anticipated exchange or

conversion does not occur as expected. With respect to securities held long, the Company is exposed to the risk of market loss if the market value of securities held long should decline.

Statement of Financial Accounting Standards ("SFAS") No. 115, which became effective January 1, 1994, requires that the Company recognize unrealized gains and losses on its short-term investments as part of current income. The cumulative effect as of January 1, 1994 of adopting SFAS No. 115 was immaterial.

Inventories

Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on the FIFO (first-in, first out) method.

Depreciation and Capitalized Interest

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized as part of the cost of property, plant and equipment.

Interest Rate Swap Agreements

In connection with the issuance of the 9% Senior Notes, the Company has entered into interest rate swap agreements ("swaps") (see Note 8). Under the terms of the swaps, the effective interest cost to the Company is equivalent to a rate which varies with LIBOR, and accordingly, the Company's periodic interest expense for debt with respect to which swaps have been consummated will vary depending on LIBOR. The Company is exposed to credit loss in the event of nonperformance by the commercial bank counterparties to the swaps. Any gains or losses as a result of terminating such swaps are deferred and recognized over the remaining life of the applicable debt.

Foreign Exchange Contracts

From time to time, the Company enters into a variety of foreign exchange instruments with off-balance-sheet risk in order to hedge a portion of both its borrowings denominated in foreign currency and its purchase commitments related to the operations of foreign affiliates. Gains and losses on instruments used to hedge purchase commitments are deferred, and amortization is included in the measurement of the foreign currency transactions hedged.

Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The value of such contracts varies with changes in the market exchange rates. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward

contract agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company does not generally require collateral or other security to support these financial instruments.

As of December 31, 1993 and 1992, outstanding forward foreign exchange contracts were \$70.5 and \$4.3 million, respectively. As of December 31, 1993 and 1992, the amount of unrealized gain on such instruments was immaterial.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries, other than those located in highly inflationary countries, are translated at year-end exchange rates. The effects of these translation adjustments are reported in a separate component of stockholders' equity, "Cumulative translation adjustment". Income and expenses are translated at average exchange rates prevailing during the year. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, and translation adjustments of subsidiaries in countries with highly inflationary economies, are included in "Other income (expense), net".

Excess of Cost Over Net Assets of Businesses Acquired

Excess of cost over net assets of businesses acquired is amortized on the straight-line method over a period of approximately 40 years. The Company believes that the excess of cost over net assets of businesses acquired is recoverable based on expected future operating income and cash flows. The primary financial indicator to assess recoverability of goodwill is operating income before amortization of goodwill. The assessment is based on an undiscounted analysis.

Debt Issuance Costs

Debt issuance costs (\$5.2 and \$6.4 million at December 31, 1993 and 1992, respectively) are included in "Other assets" in the Consolidated Balance Sheets, and are amortized to expense over the life of the related debt.

Research and Development

Research and development costs are charged to operations as incurred and amounted to \$21.2, \$21.1 and \$17.8 million for the years 1993, 1992 and 1991, respectively.

Note

3

PROVISION FOR RESTRUCTURING

In the fourth quarter of 1993, the Company recorded a pre-tax provision of \$13.8 million, primarily related to the Company's cost reduction program announced in October 1993.

Note

4

INCOME TAXES

Income tax (provision) benefit consists of the following:

(Thousands)	Year Ended December 31,		
	1993	1992	1991
Federal:			
Current	\$ (29,555)	\$ (13,648)	\$ (14,225)
Deferred	15,726	(6,844)	(2,455)
Total Federal	(13,829)	(20,492)	(16,680)
Foreign - current	(2,984)	(7,181)	(7,440)
State and local:			
Current	(1,268)	(927)	(916)
Deferred	761	-	-
Total state and local	(507)	(927)	(916)
Income tax provision	\$ (17,320)	\$ (28,600)	\$ (25,036)

As a result of legislation enacted in 1993 which increased the maximum Federal corporate income tax rate by 1%, the Company recorded a retroactive income tax provision of \$2.9 million in 1993, representing the effect of the 1% increase in the tax rate on the Company's net deferred tax liability as of December 31, 1992.

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pre-tax income, and the income tax provision reflected in the Consolidated Statements of Income are as follows:

(Thousands)	Year Ended December 31,		
	1993	1992	1991
Statutory tax provision	\$ (17,438)	\$ (29,166)	\$ (25,732)
Impact of:			
Foreign operations	3,116	3,589	3,933
Nondeductible goodwill amortization	(4,849)	(4,660)	(4,701)
Percentage depletion	1,868	2,152	1,947
Other, net	(17)	(515)	(483)
Income tax provision	\$ (17,320)	\$ (28,600)	\$ (25,036)

In 1992, the Company adopted SFAS No. 109, retroactive to March 29, 1989, the date of the Acquisition. SFAS No. 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. The new standard also requires that fixed assets, which were recorded at the time of the Acquisition on a net-of-tax basis, be reflected at their pre-tax amounts, with a corresponding increase in deferred tax liabilities. As a result, the Company's depreciation expense was increased by approximately \$3.5 million per year, and its income tax provision was decreased by approximately the same

amount. Consequently, the adoption of SFAS No. 109 did not have a material effect on the Company's net income or earnings per share.

Under SFAS No. 109, deferred tax assets and liabilities are determined based on the differences between the tax bases and book values of assets and liabilities, using enacted tax rates in effect for the years in which these differences are expected to reverse. The components of the net deferred tax liability are as follows:

(Thousands)	December 31,	
	1993	1992
Deferred tax liabilities related to:		
Property, plant and equipment	\$ 107,998	\$ 106,396
Other	4,564	4,813
Total deferred tax liabilities	112,562	111,209
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	(11,931)	(7,725)
Deferred income	(8,276)	-
Foreign tax credits not yet utilized under the Tax Sharing Agreement	(2,910)	(3,621)
All other deferred tax assets	(5,518)	(2,394)
Total deferred tax assets	(28,635)	(13,740)
Net deferred tax liability	83,927	97,469
Deferred tax assets reclassified to other current assets	8,584	5,066
Noncurrent deferred tax liability	\$ 92,511	\$ 102,535

The Company and each of its domestic subsidiaries have entered into an agreement (the "Tax Sharing Agreement") with GAF and G Industries with respect to the payment of Federal income taxes and certain related matters. During the term of the Tax Sharing Agreement, the Company is obligated to pay to G Industries an amount equal to those Federal income taxes the Company would have incurred if, subject to certain exceptions, the Company (on behalf of itself and its domestic subsidiaries) filed its own separate Federal income tax return. These exceptions include, among others, that the Company may utilize certain favorable tax attributes - i.e., losses, deductions and credits (except for a certain amount of foreign tax credits and, in general, net operating losses) - only at the time such attributes reduce the Federal income tax liability of GAF and its subsidiaries (the "GAF consolidated group"), and that the Company may carry back or carry forward its favorable tax attributes only after taking into account current tax attributes of the GAF consolidated group. In general, subject to the foregoing limitations, unused tax attributes will carry forward for use in reducing amounts payable by the Company to G Industries in future years. Subject to certain exceptions, actual payment for such attributes will be made by G Industries to the Company only when GAF receives an

actual refund of tax from the Internal Revenue Service or, under certain circumstances, when GAF no longer owns more than 50% of the Company. Foreign tax credits not utilized by GAF will be refunded by G Industries to the Company, if such credits expire unutilized, upon the termination of the statute of limitations for the year of expiration. The net deferred tax liability is ultimately payable to G Industries.

Under certain circumstances, the provisions of the Tax Sharing Agreement result in the Company having a greater current tax liability thereunder than it would have had if it (and its domestic subsidiaries) had filed its own separate Federal income tax return. Moreover, under the Tax Sharing Agreement, the Company and each domestic subsidiary are responsible for any taxes that would be payable by reason of any adjustment to the tax returns of GAF or its subsidiaries, for years prior to adoption of the Tax Sharing Agreement, relating to the business or assets of the Company or any of its domestic subsidiaries; in addition, the other subsidiaries of the Company are responsible for their respective taxes. The Tax Sharing Agreement provides for analogous principles to be applied to any consolidated, combined or unitary state or local income taxes. Under the Tax Sharing Agreement, GAF makes all decisions with respect to all matters relating to taxes of the GAF consolidated group.

The Company and each of its domestic subsidiaries join in the filing of a consolidated Federal income tax return with GAF. As members of the GAF consolidated group, the Company and each of its domestic subsidiaries are severally liable for all Federal income tax liabilities of every member of the GAF consolidated group, including tax liabilities not related to the business or assets of the Company and its domestic subsidiaries, although the Company has been indemnified by the other members of the GAF consolidated group for tax liabilities not related to the business or assets of the Company and its domestic subsidiaries.

On January 20, 1993, Rhone-Poulenc Surfactants and Specialties, Inc. ("RP") filed an action against GCC in Delaware Chancery Court (New Castle County) seeking a declaratory judgment that RP could exercise its alleged right to retire substantially all of GCC's interest in Rhone-Poulenc Surfactants and Specialties, L.P. (the "Surfactants Partnership") on or before May 13, 1993. The Court dismissed RP's complaint, without prejudice, and indicated that GCC had a "bona fide claim" (although not finally established) against RP for "abusive transfer pricing" and that there was a substantial question as to RP's good faith in seeking to exercise its alleged right to retire GCC's interest in the Surfactants Partnership. Notwithstanding such ruling,

RP notified GCC that it intended to retire GCC's interest in the Surfactants Partnership.

On June 4, 1993, GCC filed suit against RP in the 23rd Judicial District Court of Brazoria County, Texas, asserting claims against RP relating to the Surfactants Partnership for breaches of fiduciary duties, breach of contract, common law conspiracy, negligence and seeking damages and injunctive relief. On August 4, 1993, the court issued a temporary injunction enjoining RP from terminating GCC's interest in the Surfactants Partnership, and found that GCC had established both a prima facie case supporting its claims against RP for breach of fiduciary duty and a probable right on final trial to a permanent injunction. While RP has filed a notice of appeal from the temporary injunction and trial on the merits is scheduled for July 1, 1994, the litigation between the parties has been suspended on account of the pendency of settlement discussions between the parties. GCC expects to prevail in obtaining a permanent injunction if a settlement of this matter is not reached.

In connection with the creation of the Surfactants Partnership, GCC recorded a deferred tax liability in the amount of \$119 million, which amount is reflected as a liability on the consolidated balance sheet of G-I Holdings, and has been increased to \$122.5 million as a result of the 1% increase in the Federal corporate income tax rate enacted in 1993. In certain circumstances, including if RP were to retire substantially all of GCC's interest in the Surfactants Partnership before February 12, 1995, GCC would be required to satisfy this liability (subject to reduction to reflect utilization of tax attributes of the GAF consolidated group). However, as a result of the temporary injunction, payment of this liability is not expected earlier than December 1994 under present circumstances and, if such liability were required to be satisfied, the GAF consolidated group presently projects that it would pay approximately \$65 million at such time after taking into account the utilization of net operating loss carryforwards and other favorable tax attributes. There can be no assurance that the GAF consolidated group will not ultimately be required to pay this tax liability as early as December 1994. G Industries has assumed, and G Industries and GAF have agreed to jointly and severally indemnify the Company against, such tax liability. The Company is a member of the same consolidated group as GCC and, subject to such indemnification, would be severally liable for any tax liability imposed in connection with the retirement of GCC's interest in the Surfactants Partnership should GCC, G Industries and GAF be unable to satisfy such liability. GAF has advised the Company that, in the event the tax liability becomes payable, GAF believes that it will have access to

sufficient funds at that time to satisfy this liability if so required. As of December 31, 1993, the stockholder's equity of G-I Holdings was a deficit of \$42.6 million, and the Company had loans payable to G-I Holdings of \$66.8 million. See Note 11 for information regarding related party transactions.

Note 5

SALE OF ACCOUNTS RECEIVABLE

In June 1993, the Company completed a transaction involving the sale of its domestic trade accounts receivable ("domestic receivables"), without recourse, to a non-affiliated third party for a maximum of \$25 million in cash to be made available to the Company based on eligible domestic receivables outstanding from time to time. The effective cost to the Company (by way of a discount on the sale of the domestic receivables), which totaled \$5 million in 1993, is equal to A1+/P-1 commercial paper rates plus 0.43%, and is included in "Other income (expense), net" in the Consolidated Statement of Income.

As of December 31, 1993, the Company had sold \$23.7 million of domestic receivables and had received \$24.3 million in proceeds. Proceeds provided to the Company are adjusted on the fifteenth business day of each month, based on domestic receivables as of the end of the prior month. Accordingly, prior to each monthly adjustment, the Company may have a receivable from or payable to the purchaser of the domestic receivables. As of December 31, 1993, the Company had a payable to the purchaser of \$6 million, which has been netted against "Accounts receivable, other" in the Consolidated Balance Sheet.

Note 6

INVENTORIES

At December 31, 1993 and 1992, \$48 and \$40.5 million, respectively, of domestic inventories were valued using the LIFO method. These LIFO values were less than the corresponding FIFO values by \$.8 and \$3.4 million, respectively. Inventories consist of the following:

	December 31,	
(Thousands)	1993	1992
Finished goods	\$ 66,736	\$ 69,991
Work in process	17,959	21,156
Raw materials and supplies	19,850	17,800
Total	104,545	108,947
Less LIFO reserve	(845)	(3,419)
Inventories	\$ 103,700	\$ 105,528

Note 7

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	December 31,	
(Thousands)	1993	1992
Land and land improvements	\$ 67,494	\$ 65,326
Buildings and fixtures	74,047	71,870
Machinery and equipment	370,442	342,176
Construction in progress	69,457	50,226
Total	581,440	529,598
Less accumulated depreciation	(102,926)	(77,526)
Property, plant and equipment, net	\$ 478,514	\$ 452,072

Note 8

LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
(Thousands)	1993	1992
9% Senior Notes due 1999	\$ 200,000	\$ 200,000
Borrowings under revolving credit facility	127,250	252,500
Industrial revenue bond	2,400	2,970
Obligation on mortgaged property	38,125	38,125
Obligations under capital leases (Note 17)	628	-
Total long-term debt	368,403	493,595
Less current maturities	(681)	(570)
Long-term debt less current maturities	\$ 367,722	\$ 493,025

In March 1992, two domestic subsidiaries of the Company (the "Issuers") issued \$200 million of 9% Senior Notes (the "9% Notes"), due 1999. The 9% Notes are guaranteed by the Company and all of its domestic subsidiaries (the "Subsidiary Guarantors"). The Company used the net proceeds from the issuance of the 9% Notes to repay \$196 million of its then-existing borrowings from G Industries. G Industries in turn repaid a similar portion of the term loan under its then-existing bank credit agreement.

The 9% Notes are general, unsecured obligations of the Issuers. Upon issuance of the 9% Notes, the previous bank credit agreement was amended, with the Issuers assuming G Industries' obligations under the previous bank credit agreement, including the term loan and the combined revolving credit/letter of credit facility, except for obligations related to letters of credit issued on behalf of GAF Building Materials Corporation (see Note 11 for information in connection with affiliate credit arrangements). In addition, all liens on assets of

the Company securing the bank indebtedness were released, with the result that the remaining bank indebtedness and the 9% Notes rank *pari passu*.

In connection with the issuance of the 9% Notes, the Company entered into interest rate swap agreements ("swaps") with commercial banks in an aggregate notional principal amount of \$200 million. In 1993, the Company terminated the swaps, resulting in gains of \$25.1 million, and entered into new swaps. The gains were deferred and are included in "Other liabilities" in the Consolidated Balance Sheet, and are being amortized as a reduction of interest expense over the remaining life of the 9% Notes. As a result of these transactions, the effective interest cost to the Company of the 9% Notes is now equivalent to a floating rate equal to approximately 1.4% over LIBOR. The fair value of the swaps at December 31, 1993 was a loss of \$3.7 million, representing the estimated amount that would be payable by the Company if the swaps were terminated at that date.

On July 23, 1992, the Issuers, as borrowers (the "Borrowers"), entered into a new five-year bank credit agreement (the "Credit Agreement") providing for a \$400 million revolving credit/letter of credit facility. The new bank financing replaced a credit facility formerly provided by G Industries. Borrowings under the Credit Agreement bear interest at a floating rate (4.08% on December 31, 1993) based on the banks' base rate, federal funds rate, Eurodollar rate, CD rate or a competitive bid rate (which may be based on LIBOR or money market rates), at the option of the Company. All of the Borrowers' obligations under the Credit Agreement are guaranteed by the Company and its other domestic subsidiaries.

As of December 31, 1993, the Company was contingently liable under letters of credit aggregating \$9.5 million, of which \$2.5 million secures amounts due under the Company's industrial revenue bond obligation and \$1.9 million was issued for the benefit of affiliates of the Company. The Credit Agreement permits the Company to make loans to affiliates and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to \$50 million; as of December 31, 1993, \$1.9 million of such amount had been utilized for the aforementioned letters of credit.

Borrowings under the Credit Agreement are subject to the application of certain financial covenants contained in such agreement, which provide that (1) the Company will not permit the ratio of its consolidated income before income tax, interest, depreciation and amortization expense to its consolidated interest expense for its most recently completed four fiscal quarters to be less than 3 to 1 for periods ending on or before December 31, 1994 and 3.25 to 1 for periods after

December 31, 1994 and (2) the Company will not permit the ratio of its total consolidated indebtedness to the sum of adjusted net worth plus total consolidated indebtedness to be more than .55 to 1 on any date on or prior to December 31, 1994 and .50 to 1 on any date after December 31, 1994. As of December 31, 1993, the ratio referred to in clause (1) of the preceding sentence was 5.05 to 1 for the four quarters ended December 31, 1993, and the ratio referred to in clause (2) of the preceding sentence was .42 to 1 as of December 31, 1993, and therefore the application of the foregoing tests did not restrict amounts available for borrowing under the Credit Agreement. In addition, the Credit Agreement contains additional affirmative and negative covenants, including restrictions on permitted indebtedness, investments, liens, dividends, and other payments or distributions to, or other transactions with, affiliates of the Company, and restrictions on mergers and transfers of all or substantially all of the assets of the Company or its subsidiaries. The Credit Agreement also provides for a default if there is a change in control (as defined) of the Company. A default with respect to the covenants under the Credit Agreement or a default under certain other indebtedness of the Company could result in the obligations under the Credit Agreement being accelerated.

The Credit Agreement permits the Company to pay cash dividends and make other restricted payments (as defined) of up to 50% of the sum of its consolidated net income after January 1, 1992 plus the aggregate net cash proceeds from issuance of the Company's common stock after July 23, 1992, provided that, after giving effect to such dividends and restricted payments, the ratio of the Company's operating cash flow to fixed charges (including cash dividends and restricted payments) for its most recently completed four fiscal quarters is at least 1 to 1. Such ratio for the four quarters ended December 31, 1993 was .93 to 1. If the ratio is lower than 1 to 1, the Company is permitted under the Credit Agreement to pay cash dividends up to \$15 million in the aggregate. In addition, under the indenture relating to the 9% Notes, the aggregate amount of cash dividends and other restricted payments made by the Company after September 30, 1991 may not exceed the sum of \$50 million, 75% of the Company's consolidated net income (or 100% of its consolidated net loss) on a cumulative basis since such date and the aggregate net proceeds received by the Company since such date for shares of its capital stock or debt converted into shares of its capital stock. Under the indenture relating to the 9% Notes, the aggregate amount of cash dividends and other restricted payments which could be made as of December 31, 1993 was \$108 million. As of December 31, 1993, under the

most restrictive of the foregoing tests, the Company could have paid dividends in the aggregate amount of \$15 million.

The indenture governing the 9% Notes contains affirmative and negative covenants, including restrictions on permitted indebtedness, investments in and loans to affiliates, dividends and other distributions with respect to, or redemptions or acquisitions of, capital stock of the Company and its subsidiaries, permitted sale and lease-back transactions and asset dispositions and mergers. A default under the covenants in such indenture or a default under certain other indebtedness of the Company could result in the acceleration of the 9% Notes.

Neither the Credit Agreement nor the 9% Notes are secured by any assets of the Company or its subsidiaries. The indenture governing the 9% Notes provides, subject to certain exceptions, that, if the Company issues any debt secured by a lien on the stock of certain of its subsidiaries or upon any principal property, then such notes must be equally and ratably secured. The Credit Agreement restricts the Company and its subsidiaries from incurring any liens, subject to certain exceptions relating to ordinary course transactions, including purchase money liens securing indebtedness of up to \$35 million in the aggregate.

On October 5, 1993, G-I Holdings issued Senior Discount Notes due 1998. Under the indenture related to such notes, the incurrence by the Company of additional debt and the issuance by the Company of preferred stock would be restricted unless, subject to certain exceptions, the ratio of the Company's consolidated income before income tax, interest, depreciation and amortization expense to its consolidated interest expense for its most recently completed four fiscal quarters is at least 2 to 1.

The Company believes that the fair value of its bank indebtedness, its obligation on a mortgaged property, and its obligation with respect to its industrial revenue bond approximates the book value of such obligations, for the following reasons: the interest rates on the bank indebtedness and the mortgage debt are at floating short-term rates and, accordingly, the fair values of such obligations would not fluctuate with changes in market interest rates; the Credit Agreement also provides for adjustments to the interest rate if there is a change in the credit rating of the Company; and the industrial revenue bond is supported by a bank letter of credit. With respect to the Company's publicly traded debt securities, although such securities are not actively traded, the Company has obtained estimates of fair values from an independent source believed to be

reliable. The estimated fair value of the 9% Notes as of December 31, 1993 and 1992 was \$208.3 and \$206 million, respectively.

The aggregate maturities of long-term debt as of December 31, 1993 for the next five years are as follows:

(Thousands)	
1994	\$ 681
1995	721
1996	732
1997	127,995
1998	102

In the above table, 1997 maturities include the \$127.3 million of borrowings outstanding under the revolving credit facility as of December 31, 1993, based on the expiration of the Credit Agreement in July 1997.

Note 9

BENEFIT PLANS

Eligible, full-time employees of the Company are covered by various benefit plans, as described below.

Defined Contribution Plan

The Company provides a defined contribution plan for eligible salaried and certain hourly employees. The Company contributes 3% of participants' compensation, plus matching contributions up to an additional 4% of compensation for participants who make voluntary contributions. Each participant is fully vested at all times in the balance of his account. The aggregate contributions made to the plan by the Company and charged to operations were \$4,896,000 for the year 1993, \$3,352,000 for the year 1992, and \$2,941,000 for the year 1991.

Beginning in 1993, the Company is also contributing fixed amounts, ranging from \$50 to \$750 per year depending on age, to the accounts of participants who are not covered by a Company-provided postretirement medical benefit plan. Such contributions by the Company in 1993 totaled \$318,000.

Defined Benefit Plans

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees (the "Hourly Retirement Plan"). Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA, plus any additional amounts which the Company may determine to be appropriate.

Notes to Consolidated Financial Statements continued

The Company's net periodic pension cost for the Hourly Retirement Plan included the following components:

(Thousands)	Year Ended December 31,		
	1993	1992	1991
Service cost	\$ 395	\$ 559	\$ 574
Interest cost	1,134	986	828
Actual (income) loss on plan assets	(985)	75	(450)
Net deferral and amortization of unrecognized prior service cost and actuarial (gains) losses	467	(601)	72
Net periodic pension cost	\$ 1,011	\$ 1,019	\$ 1,024

The following table sets forth the funded status of the Hourly Retirement Plan:

(Thousands)	December 31,	
	1993	1992
Accumulated benefit obligation:		
Vested	\$ 15,030	\$ 11,400
Nonvested	2,010	1,990
Total accumulated benefit obligation	\$ 17,040	\$ 13,390
Projected benefit obligation	\$ 17,040	\$ 13,390
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(9,759)	(7,341)
Projected benefit obligation in excess of plan assets	7,281	6,049
Unrecognized prior service cost	(1,934)	(1,630)
Unrecognized net loss	(3,099)	(1,839)
Unfunded accrued pension cost	\$ 2,248	\$ 2,580

The difference of \$5,033,000 between the projected benefit obligation in excess of plan assets and the unfunded accrued pension cost as of December 31, 1993 has been recorded by the Company as an unfunded liability, offset by an intangible asset of \$1,934,000 and a reduction of stockholders' equity of \$3,099,000. In accordance with SFAS No. 87, "Employers' Accounting for Pensions", the foregoing amounts will be amortized to expense over a period of approximately 15 years, as the Company continues to fund the benefits under the Hourly Retirement Plan, thereby eliminating the unfunded liability, the intangible asset, and the reduction of stockholders' equity.

In determining the projected benefit obligation, the weighted average assumed discount rate was 7.5% and 8.5% for 1993 and 1992, respectively. The expected long-term rate of return on assets used in determining net periodic pension cost was 9% for 1993 and 1992.

The Company also provides a nonqualified defined benefit retirement plan for the benefit of certain key employees. Expense accrued by the Company for future obligations under this plan was \$839,000 for the year 1993, \$301,000 for the year 1992, and \$442,000 for the year 1991. Employees who participate in this plan are not entitled to have employer contributions made to their account under the defined contribution plan.

Other Benefit Plans

GAF maintained an Equity Appreciation Plan, which was terminated upon completion of the initial public offering. As a result, the Company's 1991 results reflect a one-time charge of \$3.8 million (included in "Selling, general and administrative" expense), representing the Company's portion of the costs in connection with the plan termination.

Postretirement Medical and Life Insurance

In addition to providing pension benefits, the Company presently provides certain medical and life insurance benefits for all retirees who were formerly hourly employees and for certain retirees who were formerly salaried employees. Current hourly employees may become eligible for benefits if they reach retirement age while working for the Company.

During 1992, the postretirement medical and life insurance plans for salaried employees were terminated, with certain exceptions for salaried employees over age 55 with 10 years of service. Current retirees who were formerly salaried employees will maintain life insurance coverage and receive a Company subsidy of up to \$800 per year towards medical coverage, with certain exceptions.

Effective January 1, 1992, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Under SFAS No. 106, the Company is required to accrue the estimated cost of retiree benefits, other than pensions, during covered employees' active service periods. The Company previously charged the cost of these benefits to expense as the benefits were paid.

The new accounting standard has no effect on the Company's cash disbursements for retiree medical and life insurance benefits, as the Company funds these benefits as they become payable. The cumulative effect as of January 1, 1992 of adopting SFAS No. 106 was a one-time charge against earnings of \$7.1 million (\$.07 per share), after the related income tax benefit of \$3.9 million.

The following table shows the components of the accrued postretirement health care cost liability as included in the Consolidated Balance Sheets as of December 31, 1993 and 1992:

(Thousands)	December 31,	
	1993	1992
Accumulated postretirement benefit obligation:		
Retirees, dependents, and beneficiaries eligible for benefits	\$ 9,031	\$ 8,625
Active employees fully eligible for benefits	3,019	1,077
Active employees not fully eligible for benefits	1,279	1,388
Total accumulated benefit obligation	13,329	11,090
Fair value of plan assets	-	-
Unrecognized net loss	(2,495)	-
Accrued postretirement benefit liability	\$ 10,834	\$ 11,090

The net periodic postretirement benefit cost included the following components:

(Thousands)	Year Ended December 31,	
	1993	1992
Service cost	\$ 75	\$ 133
Interest cost	1,012	915
Net periodic postretirement benefit cost	\$ 1,087	\$ 1,048

For purposes of calculating the accumulated postretirement benefit obligation, the following assumptions were made. Retirees who were formerly salaried employees (with certain exceptions) were assumed to receive a Company subsidy of \$800 per year. With respect to retirees who were formerly hourly employees, most such retirees are subject to a \$5,000 per person lifetime maximum benefit. Subject to such lifetime maximum, a 16% and 10% annual rate of increase in the Company's per capita cost of providing medical benefits was assumed for 1994 for such retirees under and over age 65, respectively. To the extent that the lifetime maximum benefits have not been reached, the foregoing rates were assumed to decrease gradually to 7% and 6%, respectively, by the year 2003 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.5% and 8.5% for 1993 and 1992, respectively.

The health care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 by \$923,000 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year 1993 by \$143,000.

Note 10

STOCK OPTION PLAN

The 1991 Incentive Plan for Key Employees (the "1991 Incentive Plan") authorizes the grant of options to purchase a maximum of 3,000,000 shares of the Company's common stock. Options may be either options intended to be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code ("Code") or "nonqualified" stock options for purposes of the Code. The exercise price of options granted must be at least equal to the Fair Market Value (as defined in the 1991 Incentive Plan) of such shares on the date of grant. Options may not be exercised during the first year after the date of grant. Thereafter, each option becomes exercisable as to 20%, 40%, 60%, 80% and 100% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant. Special vesting rules apply to options granted to non-employee directors.

In 1993, the Company extended an offer to holders of outstanding stock options, allowing such holders to exchange their existing options for a lesser number of new options. As a result, 1,177,518 options with exercise prices ranging from \$7.25 to \$14.00 were exchanged for 667,029 new options with an exercise price of \$6.75.

The following is a summary of transactions pertaining to the 1991 Incentive Plan:

(Number of Shares)	1993	1992	1991
Outstanding January 1	1,883,649	836,248	-
Granted	825,509	1,064,322	836,248
Exercised	-	-	-
Exchanged	(1,177,518)	-	-
Terminated	(302,676)	(16,921)	-
Outstanding December 31	1,228,964	1,883,649	836,248
At December 31:			
Exercisable	151,118	164,238	-
Available for grant	1,771,036	1,116,351	2,163,752
Option Price Range Per Share:			
Outstanding	\$ 6.75- \$ 14.00	\$ 11.625- \$ 14.00	\$ 12.25

Note 11

RELATED PARTY TRANSACTIONS

Building Materials Corporation of America ("BMCA"), an indirect subsidiary of G-I Holdings, acquired the operating assets and certain liabilities of GAF Building Materials Corporation ("GAF-BMC"), an indirect

subsidiary of G-I Holdings, as of January 31, 1994. The information below retroactively reflects the formation of BMCA as of the beginning of the periods presented. BMCA has been for many years a major customer for the Company's mineral products. In 1993, BMCA purchased approximately \$43.5 million of mineral products from the Company, representing approximately 8% of the Company's total net sales and approximately 54% of the Company's net sales of mineral products. Such sales by the Company to BMCA totaled \$41.4 and \$30.7 million for the years 1992 and 1991, respectively. Sales to BMCA were made under a supply contract which expired on December 31, 1993, pursuant to which BMCA had agreed to purchase from the Company all of its colored mineral products requirements, except for the requirements of its California roofing plant. Although such contract has expired, BMCA has continued to purchase, and the Company intends to continue to supply to BMCA, all such requirements. The Company and BMCA intend to enter into a new long-term supply contract in 1994.

The receivable from BMCA for sales of mineral products at December 31, 1993 and 1992 was \$2.4 and \$3.6 million, respectively.

Pursuant to a Management Agreement, which expires in May 1994, the Company provides certain general management, administrative, and facilities services to BMCA and GAF Broadcasting Company, Inc., a subsidiary of G Industries ("Broadcasting"). Charges by the Company for providing such services aggregated \$4.8, \$4.5 and \$4.3 million for the years 1993, 1992 and 1991, respectively, and are reflected as reductions of "Selling, general and administrative" expense. Such charges were reduced to an annual rate of \$4.4 million, effective January 1, 1994, to reflect reduced costs to the Company of providing such services and can be further adjusted by amendment if there is a substantial change in the cost to the Company of providing such services. In addition to the management services charge, BMCA paid approximately \$.7, \$.7 and \$.5 million to the Company in 1993, 1992 and 1991, respectively, primarily for telecommunications and information services, which were not encompassed within the Management Agreement.

Under the Management Agreement, in the event the Company provides services to BMCA or Broadcasting substantially greater than those provided in the past, the Company will be reimbursed for the increased costs of providing such services. In addition, the Management Agreement provides that the parties may pay certain of each other's expenses for their mutual administrative convenience until such time as such expenses can be directly billed or charged to the party which incurred them, so long as each party which incurs such expenses promptly reimburses the party which pays the costs thereof.

The Company, BMCA, and Broadcasting intend to enter into a new long-term management agreement in 1994.

See Note 4 for a discussion of the Tax Sharing Agreement.

Under the terms of its revolving credit facility, the Company or any of its subsidiaries may in its discretion (but shall not be obligated to) make loans to affiliates, and provide letters of credit issued for the benefit of such affiliates, up to an aggregate amount not to exceed \$50 million outstanding at any time (see Note 8).

The Company and its subsidiaries also borrow from G-I Holdings and its subsidiaries from time to time at the same rates available to the Company under its revolving credit facility. Such borrowings outstanding at December 31, 1993 and 1992 totaled \$66.8 and \$20.5 million, respectively.

Note

12

INVESTMENT IN JOINT VENTURE

Financial data presented below pertain to GAF-Hüls Chemie GmbH ("GAF-Hüls"), a joint venture between the Company and Hüls Aktiengesellschaft, which operates a chemical manufacturing plant in Germany.

The results of this joint venture are accounted for by the equity method. As of December 31, 1993, \$2.7 million of the Company's retained earnings represented undistributed earnings of GAF-Hüls.

(Thousands)	Year Ended December 31,		
	1993	1992	1991
Income Statement data:			
Revenues: From the Company	\$ 6,233	\$ 10,541	\$ 14,895
From others	78,627	88,886	89,326
Total revenues	84,860	99,427	104,221
Costs and expenses	77,011	75,517	78,611
Operating income	\$ 7,849	\$ 23,910	\$ 25,610
Net income of GAF-Hüls	\$ 4,095	\$ 11,045	\$ 16,621
Equity of the Company in earnings of GAF-Hüls	\$ 2,051	\$ 5,996	\$ 7,894
Cash Flow data:			
Cash provided by operating activities:			
Net income	\$ 4,095	\$ 11,045	\$ 16,621
Depreciation/amortization	5,483	5,375	4,389
Working capital changes	(4,794)	6,637	3,028
Other, net	(1,486)	(1,709)	(140)
Total	3,298	21,348	23,898
Cash used in investing activities:			
Capital expenditures	(1,180)	(2,861)	(576)
Cash used in financing activities:			
Dividends paid	(10,756)	(14,318)	(22,788)
Other, net	(1,699)	(1,677)	(361)
Total	(12,455)	(15,995)	(23,149)
Net change in cash and cash equivalents	\$ (10,337)	\$ 2,492	\$ 173
Dividends received by the Company from GAF-Hüls	\$ 5,377	\$ 7,158	\$ 11,403

	December 31,		
	1993	1992	1991
Balance Sheet data:			
Current assets	\$ 40,820	\$ 51,047	\$ 53,611
Noncurrent assets	43,813	51,274	57,137
Total Assets	\$ 84,633	\$ 102,321	\$ 110,748
Current liabilities	\$ 6,776	\$ 11,460	\$ 9,879
Noncurrent liabilities	12,877	14,634	16,357
Total Liabilities	\$ 19,653	\$ 26,094	\$ 26,236
Net assets of GAF-Hüls	\$ 64,980	\$ 76,227	\$ 84,512
Equity of the Company in net assets of GAF-Hüls	\$ 32,308	\$ 37,938	\$ 41,588
Effect of translation adjustments on the Company's investment in GAF-Hüls	\$ (2,304)	\$ (2,488)	\$ 1,010

Notes to Consolidated Financial Statements continued

Note 13

BUSINESS SEGMENT INFORMATION

(Millions)	Year Ended December 31,		
	1993	1992	1991
Net sales:			
Specialty Derivative Chemicals	\$ 434.5	\$ 435.5	\$ 411.4
Mineral Products*	81.3	101.9	85.4
Other	32.5	33.4	29.0
Net sales	\$ 548.3	\$ 570.8	\$ 525.8
Operating income:			
Specialty Derivative Chemicals	\$ 59.8	\$ 78.1	\$ 99.0
Mineral Products	16.9	27.6	20.7
Other	2.2	2.0	2.2
Provision for restructuring**	(13.8)	-	-
Total operating income	\$ 65.1	\$ 107.7	\$ 121.9
Identifiable assets:			
Specialty Derivative Chemicals	\$ 972.6	\$ 1,008.1	\$ 963.6
Mineral Products	161.5	164.6	161.6
Other	109.2	97.7	26.0
Total assets	\$ 1,243.3	\$ 1,270.4	\$ 1,151.2
Capital expenditures and acquisitions:			
Specialty Derivative Chemicals	\$ 54.5	\$ 63.0	\$ 29.7
Mineral Products	8.3	7.4	4.5
Other	0.1	0.1	0.2
Total	\$ 62.9	\$ 70.5	\$ 34.4
Depreciation:			
Specialty Derivative Chemicals	\$ 22.1	\$ 19.7	\$ 17.9
Mineral Products	6.2	5.5	4.9
Other	0.4	0.4	0.4
Total	\$ 28.7	\$ 25.6	\$ 23.2

* Includes sales to BMCA of \$43.5, \$41.4 and \$30.7 million for the years 1993, 1992 and 1991, respectively.

** On a segment basis, the provision for restructuring (see Note 3) relates to Specialty Derivative Chemicals (\$11.8 million), Mineral Products (\$3 million), and Other (\$1.7 million).

Note

14

GEOGRAPHIC INFORMATION

Results set forth below for foreign operations represent sales and operating income of foreign-based subsidiaries.

(Millions)	Year Ended December 31,		
	1993	1992	1991
Net sales:			
Domestic operations*	\$ 286.8	\$ 304.5	\$ 278.0
Europe**	167.7	188.1	173.9
Asia-Pacific	69.3	57.0	53.1
Other foreign operations	24.5	21.2	20.8
Net sales	\$ 548.3	\$ 570.8	\$ 525.8
Operating income:			
Domestic operations	\$ 26.9	\$ 52.1	\$ 63.8
Europe	35.7	43.6	44.6
Asia-Pacific	13.2	9.8	11.0
Other foreign operations	3.1	2.2	2.5
Provision for restructuring***	(13.8)	-	-
Operating income	65.1	107.7	121.9
Equity in earnings of joint venture	2.1	6.0	7.9
Interest expense and other, net	(17.4)	(27.9)	(54.1)
Income before income taxes and cumulative effect of accounting change	\$ 49.8	\$ 85.8	\$ 75.7
Identifiable assets:			
Domestic operations	\$ 1,091.2	\$ 1,112.4	\$ 998.6
Europe****	118.5	125.6	125.4
Asia-Pacific	24.9	20.6	18.5
Other foreign operations	8.7	11.8	8.7
Total assets	\$ 1,243.3	\$ 1,270.4	\$ 1,151.2

* Net sales-domestic operations excludes sales by the Company's domestic subsidiaries to foreign-based subsidiaries of \$113.6, \$118.5 and \$107.9 million for 1993, 1992 and 1991, respectively.

** Net sales-Europe excludes sales by the Company's European subsidiaries to domestic and other foreign-based subsidiaries of \$7.2, \$13.1 and \$13.6 million for 1993, 1992 and 1991, respectively.

*** On a geographic basis, the provision for restructuring (see Note 3) relates to domestic operations (\$7.6 million), Europe (\$5.7 million), Asia-Pacific (\$4 million), and other foreign operations (\$1 million).

**** Identifiable assets-Europe include the Company's 50% ownership of GAF-Hüls.

Notes to Consolidated Financial Statements continued

Note 15

GUARANTOR FINANCIAL DATA (for the Issuers and the Subsidiary Guarantors)

As described in Note 8, the 9% Notes are guaranteed by the Company and the Subsidiary Guarantors. Presented below is combined condensed financial information for the Issuers and the Subsidiary Guarantors, which together are interdependent and with their subsidiaries

constitute all of the domestic subsidiaries of the Company. Financial information for the Company's foreign subsidiaries, including its investment in GAF-Hüls, is reflected in the following financial information by the equity method of accounting.

COMBINED CONDENSED STATEMENTS OF INCOME For the Issuers and the Subsidiary Guarantors

		Year Ended December 31,	
(Millions)	1993	1992	1991
Net sales	\$ 400.4	\$ 423.0	\$ 385.9
Costs and expenses:			
Cost of products sold	276.0	274.4	235.0
Selling, general and administrative	83.6	82.8	73.3
Provision for restructuring	7.6	-	-
Goodwill amortization	13.9	13.7	13.8
Total costs and expenses	381.1	370.9	322.1
Operating income	19.3	52.1	63.8
Interest expense	(24.4)	(30.1)	(52.0)
Equity in income from foreign subsidiaries and 50% owned joint venture	31.0	41.3	49.3
Other income, net	20.9	15.7	7.1
Income before income taxes and cumulative effect of accounting change	46.8	79.0	68.2
Income taxes	(17.2)	(21.8)	(17.6)
Income before cumulative effect of accounting change	29.6	57.2	50.6
Cumulative effect of change in accounting for postretirement benefits other than pensions, net of related income tax benefit	-	(7.1)	-
Net income	\$ 29.6	\$ 50.1	\$ 50.6

COMBINED CONDENSED BALANCE SHEETS

For the Issuers and the Subsidiary Guarantors

	December 31,	
(Millions)	1993	1992
Assets		
Current Assets:		
Cash and short-term investments	\$ 72.8	\$ 70.7
Accounts receivable, net	3.4	31.8
Inventories	71.3	66.7
Other current assets	12.5	10.5
Receivable from related parties, net	-	8.2
Total Current Assets	160.0	187.9
Property, plant and equipment, net	449.9	427.2
Excess of cost over net assets of businesses acquired, net	457.1	470.9
Advances to and equity in investment in foreign subsidiaries and 50% owned joint venture	123.9	134.6
Other assets	24.2	26.4
Total Assets	\$ 1,215.1	\$ 1,247.0
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt	\$ 12.7	\$ -
Current maturities of long-term debt	0.7	0.6
Loan payable to related party	66.8	20.5
Accounts payable	26.0	24.8
Accrued liabilities	37.0	28.1
Payable to related parties, net	3.6	-
Income taxes	-	9.5
Total Current Liabilities	146.8	83.5
Long-term debt less current maturities	367.7	493.0
Deferred income taxes	92.5	102.5
Other liabilities	74.1	51.0
Stockholders' Equity	534.0	517.0
Total Liabilities and Stockholders' Equity	\$ 1,215.1	\$ 1,247.0

Notes to Consolidated Financial Statements continued

COMBINED CONDENSED STATEMENTS OF CASH FLOWS

For the Issuers and the Subsidiary Guarantors

(Millions)	Year Ended December 31,		
	1993	1992	1991
Cash and short-term investments, beginning of year	\$ 70.7	\$ 0.1	\$ 5.0
Cash provided by operating activities:			
Net income	29.6	50.1	50.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	26.8	23.9	22.0
Goodwill amortization	13.9	13.7	13.8
Cumulative effect of accounting change	-	7.1	-
Provision for restructuring	7.6	-	-
Deferred income taxes	(13.2)	6.8	2.5
(Increase) decrease in working capital items	(5.6)	(7.4)	(8.3)
Change in advances to and equity in investment in foreign subsidiaries and 50% owned joint venture	10.7	(11.7)	(27.1)
(Increase) decrease in net receivable from/payable to related parties	10.2	(3.0)	(1.7)
Change in cumulative translation adjustment	(6.3)	(10.2)	(0.2)
Other, net	4.4	(6.4)	(13.0)
Net cash provided by operating activities	78.1	62.9	38.6
Cash used in investing activities:			
Capital expenditures and acquisitions	(54.0)	(61.4)	(30.7)
Cash provided by (used in) financing activities:			
Proceeds from sale of accounts receivable	24.3	-	-
Proceeds from termination of interest rate swap agreements	25.1	-	-
Proceeds from initial public offering	-	-	281.3
Increase in short-term debt	12.7	-	-
Increase (decrease) in long-term debt, net	(125.8)	60.5	(291.7)
Loan from related party	46.3	20.5	-
Financing fees and expenses	(0.2)	(6.9)	-
Dividends and distributions	(5.0)	(5.0)	(27.6)
Capital contribution by parent company	-	-	25.2
Other, net	0.6	-	-
Net cash provided by (used in) financing activities	(22.0)	69.1	(12.8)
Net change in cash and short-term investments	2.1	70.6	(4.9)
Cash and short-term investments, end of year	\$ 72.8	\$ 70.7	\$ 0.1

The advances to and equity in investment in foreign subsidiaries and 50% owned joint venture and the related equity in income from foreign subsidiaries and 50% owned joint venture include the net assets and operating results, respectively, of the Company's wholly owned foreign subsidiaries and its 50% owned joint venture, GAF-Hüls (see Note 12). Domestic operating income includes \$25, \$24.1 and \$28.9 million of profits on sales made by the Company's domestic subsidiaries to its foreign-based subsidiaries for the years 1993, 1992

and 1991, respectively. Profits earned on sales to the foreign-based subsidiaries which were included in the foreign-based subsidiaries' inventories at the end of each period have been eliminated from domestic operating income and from advances to and equity in investment in foreign subsidiaries.

Dividends received from foreign-based subsidiaries and GAF-Hüls aggregated \$43.9, \$36.1 and \$40.1 million for the years 1993, 1992 and 1991, respectively.

Note 16

ACQUISITIONS

In March 1992, the Company acquired the Van Dyk worldwide personal care business ("Van Dyk"). Van Dyk is a leading producer of ultraviolet absorber chemicals, pearlescent pigments, emollients and emulsifiers. The acquisition was financed from bank borrowings and was accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair values of the identifiable net assets acquired. The results of Van Dyk, including sales of \$22.5 million for the year 1992, are included in the Consolidated Statements of Income from the date of acquisition; the effect was not material to consolidated operations in 1992.

In February 1993, the Company acquired the MTM fine chemicals business, which produces a broad range of pharmaceutical intermediates, biological buffers and pheromones and several bulk active pharmaceuticals. The acquisition, which was financed by bank borrowings, was accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair values of the identifiable net assets acquired. The results of MTM are included in the Consolidated Statement of Income from the date of acquisition; the effect was not material to consolidated operations in 1993.

Note 17

COMMITMENTS AND CONTINGENCIES

GAF, G-I Holdings, G Industries and GCC are presently dependent upon the earnings and cash flow of their subsidiaries (including the Company) in order to satisfy obligations as of December 31, 1993 in the amount of \$410.6 million of 11.125% Senior Discount Notes due October 1998, the asbestos-related claims discussed below, certain potential tax liabilities discussed in Note 4, and approximately \$104 million of various other liabilities. In the event that such parent corporations were unable to meet their cash needs from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise or to make loans to parent corporations, or to cause GCC to sell shares of the Company's common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries should have a material adverse effect on the operations, liquidity or capital resources of the Company.

Asbestos Litigation Against GAF

GAF has advised the Company that, as of December 31, 1993, GAF had been named as a defendant in approximately 53,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber, having resolved approximately 156,000 other lawsuits involving similar claims, and as a co-defendant in approximately 23 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises.

The reserve of GAF and G-I Holdings for asbestos bodily injury claims, as of December 31, 1993, was approximately \$311.1 million (net of estimated recoveries from products liability insurance policies of approximately \$280 million and after having discounted certain liabilities), before related deferred tax benefits of approximately \$121 million. GAF and G-I Holdings have advised the Company that certain components of the asbestos-related liability have been reflected on a discounted basis in their financial statements, and that the aggregate undiscounted liability as of December 31, 1993 was \$362.5 million. As of such date, G-I Holdings' stockholder's equity was a deficit of \$42.6 million.

GAF's and G-I Holdings' estimate of liability for asbestos claims is based on the Settlement described below being approved and on assumptions which relate, among other things, to the number of new cases filed, the cost of resolving (either by settlement or litigation or through the mechanism established by the Settlement) pending and future claims, the realization of related tax benefits, the favorable resolution of pending litigation against certain insurance companies and the amount of recoveries from various insurance companies.

On January 15, 1993, the members of the Center for Claims Resolution (the "CCR"), a non-profit organization of asbestos defendants including GAF, entered into a class-action settlement agreement (the "Settlement") to resolve all future asbestos bodily injury claims (other than claims of those persons who "opted out" of the class by January 24, 1994) against GAF and other members of the CCR. The Settlement, if approved and effective, would operate to limit GAF's liability for future asbestos claims to persons who do not "opt out" of the Settlement by placing a dollar limit on awards and a limit on the number of claims that will be paid to such persons in any one year over the first ten years of the Settlement.

GAF and G-I Holdings have advised the Company that they believe that their reserves, which reflect the discounting of a portion of the liabilities, adequately

reflect their asbestos-related liabilities. GAF and G-I Holdings have also advised the Company that they anticipate that substantially all the payments in connection with GAF's and G-I Holdings' liability relating to asbestos bodily injury claims will be made by the end of the year 2004, and that, while they are unable to estimate the amount of liability with respect to claims to be resolved after such period, they believe that GAF will resolve, prior to that time, substantially all the court cases currently pending against it, and that it will further resolve substantially all the claims filed under the Settlement on a relatively current basis, so that the number of claims pending against GAF at the end of such period will be substantially diminished from current levels. GAF and G-I Holdings have advised the Company that, as a result of these and other factors, they believe that the resolution of any claims after such period will not have a material adverse effect on their respective financial positions or results of operations.

Neither the Company nor the assets or operations of the Company, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims, but the Company cannot predict whether any such claims will be asserted against it or the outcome of any litigation related to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of common stock of the Company, and such enforcement could result in a change of control of the Company.

Environmental Litigation

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and similar state laws, in which recovery is sought for the cost of cleanup of contaminated waste disposal sites. A number of the Environmental Claims are in the early stages and others have been dormant for protracted periods.

At each site, the Company anticipates, although there can be no assurance, that liability will be apportioned among the companies found to be responsible for the presence of hazardous substances at the site. Although it is difficult to predict the ultimate resolution of these claims, based on the Company's evaluation of the financial responsibility of the parties involved and their insurers, the merits of the defenses of

the Company and other parties and the nature and terms of cost sharing arrangements now in place among the potentially responsible parties, the Company estimates that its liability in respect of all Environmental Claims, as of December 31, 1993, will be approximately \$17.2 million. After a reduction for anticipated insurance recoveries (discussed below) of \$7 million, the Company estimates that its net liability will be approximately \$10.2 million.

Although the Company believes it is entitled to substantially full defense and indemnity under its insurance policies for all Environmental Claims, the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for the matters discussed above. Nevertheless, the insurers have agreed to reimburse the Company for a substantial portion of its indemnity obligations in a number of these cases and the Company has also reached agreements with certain of its insurers regarding the Company's defense costs and other related expenses and, pursuant to these agreements, certain insurers are currently paying a portion of the Company's defense costs. After considering the relevant legal issues, prevailing commercial practice in the resolution of similar claims and the agreements discussed above, the Company believes that it is probable that it will receive the anticipated insurance recoveries, although there can be no assurance in this regard.

In the opinion of the Company's management, the environmental matters referred to herein will be resolved and amounts will be paid gradually over a period of years and, accordingly, the resolution of such matters should not be material to the business, liquidity or financial position of the Company. However, adverse decisions or events, particularly as to the merits of the Company's factual and legal defenses to liability and the financial responsibility of the other parties involved at each site, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

In June 1989, the Company entered into a Consent Order with the New Jersey Department of Environmental Protection and Energy requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently \$7.5 million) to guarantee the Company's performance. The remediation required by the order encompasses the following: (1) the elimination of water-borne contaminant migration from the site at an estimated cost, as of December 31, 1993, of approximately \$5.7 million (\$1.1 million after anticipated insurance recoveries) and (2) the creation of a site development

plan to deal with soil contamination. Although no assurances can be given and the site development plan has not been developed, the Company believes that the soil remediation requirements will be met through land use and access controls and, therefore, that the majority of the costs will be spent in connection with the site development plan. The Company believes that any remaining costs, such as that of long-term monitoring, will not be material.

The Company estimates that capital expenditures necessary in order to maintain the Company's compliance with environmental laws and regulations will be approximately \$3.5 and \$3.9 million in 1994 and 1995, respectively. The Company believes that its manufacturing facilities comply in all material respects with applicable environmental laws and regulations, and, while it cannot predict whether more burdensome requirements will be adopted in the future, it believes that any potential liability for such compliance will not materially affect its business, liquidity or financial position.

Lease Commitments

Leases for certain equipment at two of the Company's mineral products plants are accounted for as capital leases and are included in "Property, plant and equipment, net", at December 31, 1993 in the amount of \$.6 million. The Company also has operating leases for transportation, production and data processing equipment and for various buildings. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1993 were as follows:

(Thousands)	Capital Leases	Operating Leases
1994	\$ 162	\$ 2,324
1995	162	2,122
1996	162	1,650
1997	162	866
1998	121	167
Later years	-	2
Total minimum payments	769	\$ 7,131
Less interest included above	141	
Present value of net minimum lease payments	\$ 628	

Other Commitment

The Company intends to construct a European manufacturing facility to meet the needs of the Company's European business. The Company is currently considering a number of alternative plant sites and plans to develop the facility in stages over a four-to-six year period. The Company anticipates utilizing internally generated funds and/or independent financing to fund the cost of the project. The first phase of the European plant would increase the Company's polymer capacity.

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation and an 80.6% owned subsidiary of GAF Chemicals Corporation) and subsidiaries as of December 31, 1992 and 1993, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial

statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 1992 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 9 to the consolidated financial statements, effective January 1, 1992, the Company changed its method of accounting for postretirement benefits other than pensions.

Arthur Andersen & Co.

Arthur Andersen & Co.
Roseland, New Jersey
March 8, 1994

Quarterly Financial Data (unaudited)

(Millions, except per share amounts)	1993 By Quarter				1992 By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net sales	\$ 146.2	\$ 148.2	\$ 129.3	\$ 124.6	\$ 142.1	\$ 151.8	\$ 142.3	\$ 134.6
Cost of products sold	89.4	83.1	77.2	79.8	79.4	83.4	75.5	86.6
Gross profit	\$ 56.8	\$ 65.1	\$ 52.1	\$ 44.8	\$ 62.7	\$ 68.4	\$ 66.8	\$ 48.0
Operating income (loss)*	\$ 21.4	\$ 28.3	\$ 17.7	\$ (2.3)	\$ 31.3	\$ 34.1	\$ 31.6	\$ 10.7
Income (loss) before income taxes and cumulative effect of accounting change	\$ 17.6	\$ 22.5	\$ 15.1	\$ (5.4)	\$ 25.8	\$ 28.0	\$ 27.4	\$ 4.6
Income taxes:								
Annual (provision) benefit	(6.1)	(7.9)	(5.3)	2.0	(8.7)	(9.5)	(9.2)	(1.2)
Adjustment of deferred tax liability for change in tax rate	-	-	(2.9)	-	-	-	-	-
Income (loss) before cumulative effect of accounting change	11.5	14.6	6.9	(3.4)	17.1	18.5	18.2	3.4
Cumulative effect of change in accounting for postretirement benefits other than pensions, net of related income tax benefit	-	-	-	-	(7.1)	-	-	-
Net income (loss)	\$ 11.5	\$ 14.6	\$ 6.9	\$ (3.4)	\$ 10.0	\$ 18.5	\$ 18.2	\$ 3.4
Earnings per common share**:								
Income (loss) before cumulative effect of accounting change	\$.12	\$.15	\$.07	\$ (.03)	\$.17	\$.19	\$.18	\$.03
Cumulative effect of accounting change	-	-	-	-	(.07)	-	-	-
Net income (loss)	\$.12	\$.15	\$.07	\$ (.03)	\$.10	\$.19	\$.18	\$.03

* The Company recorded a \$13.8 million pre-tax provision for restructuring in the fourth quarter of 1993 (see Note 3 of Notes to Consolidated Financial Statements).

** In accordance with the provisions of APB Opinion No. 15, earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the quarters.

MARKET FOR COMMON STOCK

The following information pertains to the Company's common stock, which is traded on the New York Stock Exchange. As of March 4, 1994, there were 408 holders of record of the Company's outstanding common stock.

(Dollars)	1993 By Quarter				1992 By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Price Range of Common Stock:								
High	\$ 9 3/4	\$ 7 3/4	\$ 7 1/2	\$ 7 3/4	\$ 15 7/8	\$ 12 3/4	\$ 13 3/4	\$ 13 1/4
Low	5 3/4	6 1/4	6 1/2	6 1/4	10 3/4	9 3/4	10 7/8	8 3/4
Cash Dividends Per Common Share	-	\$.025	-	\$.025	-	\$.025	-	\$.025

The Company currently pays a semi-annual dividend of 2.5 cents per share. The declaration and payment of dividends is at the discretion of the Board of Directors of the Company. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 8 of Notes to Consolidated Financial Statements for information regarding restrictions on the payment of dividends. The timing and amount of dividends paid is dependent upon, among other things, the Company's results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Board of Directors will declare and pay dividends or as to the amounts thereof.

Board of Directors and Corporate Officers

BOARD OF DIRECTORS

Mark A. Buckstein
Executive Vice President,
General Counsel and Secretary,
International Specialty
Products Inc.

Charles M. Diker
Chairman of the Board,
Cantel Industries Inc.

Carl R. Eckardt
President and
Chief Operating Officer,
International Specialty
Products Inc.

Harrison J. Goldin
Partner,
Goldin Associates, L.P.

Samuel J. Heyman
Chairman of the Board and
Chief Executive Officer,
International Specialty
Products Inc.

Sanford Kaplan
Private Investor

Burton J. Manning
Chairman and
Chief Executive Officer,
J. Walter Thompson Company

CORPORATE OFFICERS

Samuel J. Heyman
Chairman of the Board and
Chief Executive Officer

Carl R. Eckardt
President and
Chief Operating Officer

Mark A. Buckstein
Executive Vice President,
General Counsel and Secretary

James J. Conway
Senior Vice President and
General Manager,
Specialty Chemicals

Richard B. Olsen
Senior Vice President and
Chief Financial Officer

James P. Rogers
Senior Vice President, Finance
and Treasurer

James J. Strupp
Senior Vice President,
Human Resources

Paul J. Aronson
Vice President, Taxes

Arthur Dresner
Vice President, Licensing
and Advanced Materials

T. H. King
Vice President and
General Manager,
Mineral Products

Mark A. Presto
Vice President and
Assistant Treasurer

Jonathan H. Stern
Vice President and
Controller

International Specialty Products Locations

UNITED STATES

MANUFACTURING

Alabama, Huntsville
Kentucky, Calvert City
Missouri, Annapolis
New Jersey, Belleville
New Jersey, Chatham
Ohio, Columbus
Pennsylvania, Blue Ridge Summit
Tennessee, Memphis
Texas, Seadrift
Texas, Texas City
Wisconsin, Pembine

R&D

Alabama, Huntsville
Kentucky, Calvert City
Maryland, Hagerstown
New Jersey, Belleville
New Jersey, Chatham
New Jersey, Wayne
Texas, Texas City

SALES

California, Irvine
Illinois, Lombard
Maryland, Hagerstown
New Jersey, Belleville
New Jersey, Bridgewater
New Jersey, Chatham

New Jersey, Wayne
North Carolina, Charlotte
Tennessee, Memphis
Texas, Dallas

INTERNATIONAL

MANUFACTURING

Belgium, Sint-Niklaas
Brazil, Sao Paulo
Canada, Mississauga, Ontario
Singapore, Tuas

R&D

Belgium, Sint-Niklaas
Germany, Cologne
Great Britain, Guildford
Singapore, Science Park

SALES

Argentina, Buenos Aires
Australia, Box Hill, Victoria
Australia, Silverwater, N.S.W.
Austria, Vienna
Belgium, Sint-Niklaas
Brazil, Sao Paulo
Canada, Mississauga, Ontario
Canada, Ville St. Laurent, Quebec
China, Beijing
China, Shanghai
Denmark, Copenhagen

Finland, Helsinki
France, Paris
Germany, Frechen
Great Britain, Guildford
Great Britain, Manchester
Hong Kong
Hungary, Budapest
Ireland, Dublin
Italy, Milan
Japan, Osaka
Japan, Tokyo
Korea, Seoul
Mexico, Mexico City
Netherlands, Schiedam
New Zealand, Otahuhu
Norway, Oslo
Puerto Rico, Rio Piedras
Russia, Moscow
Singapore, Southpoint
Spain, Barcelona
Sweden, Johanneshov
Switzerland, Zug
Taiwan, Taipei
Thailand, Bangkok
Turkey, Istanbul
Venezuela, Caracas

AFFILIATE

GAF-Hüls Chemie GmbH
Germany, Marl

Shareholder Information

ANNUAL MEETING

The 1994 Annual Meeting of Shareholders is scheduled to be held at 10 a.m., Tuesday, May 31, at:

The Bank of New York
48 Wall Street, 11th Floor
New York, New York 10286

FORM 10-K

A copy of the Company's Annual Report on Form 10-K (including financial statements and schedules), as filed with the Securities and Exchange Commission, may be obtained free of charge by writing to:

International Specialty Products Inc.
Shareholder Relations Department
1361 Alps Road
Wayne, New Jersey 07470
(201) 628-4000
(800) 526-5315

STOCK TRANSFER AGENT AND REGISTRAR

The Bank of New York
101 Barclay Street
New York, New York 10007
(800) 524-4458

INVESTOR RELATIONS

Inquiries should be directed to:

Kathleen M. Guinnesssey
Assistant Treasurer
International Specialty Products Inc.
1361 Alps Road
Wayne, New Jersey 07470
(201) 628-3463

International Specialty Products Inc. common stock is listed on the New York Stock Exchange (symbol: "ISP").



INTERNATIONAL SPECIALTY PRODUCTS INC.
1361 ALPS ROAD
WAYNE, NEW JERSEY 07470